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NOMINATION OF JOHN P. LaWARE

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

THE NOMINATION OF JOHN P. LaWARE, OF MASSACHUSETTS, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR THE TERM OF 14 YEARS

JULY 7, 1988

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CONTENTS

THURSDAY, JULY 7, 1988

	Page
Opening remarks of Senator Proxmire	1
Opening statement of Senator Kennedy	1
Complete prepared statement of Senator Kennedy	2
Opening statement of Senator Kerry	3
Opening statement of Senator Garn	4
Complete prepared statement of Senator Garn	4
Opening remarks of Senator Shelby	5
Complete prepared statement of Senator Shelby	5
Opening statement of Senator Dixon	5
Opening statement of Senator Chafee	5
Opening statement of Senator Karnes	14

WITNESS

John P. LaWare, nominated to be a member of the Board of Governors, Federal Reserve System	9
Views on the risk-based capital plan	9
Difficult to legislate levels of reserves	11
Third World debt and the policy of the Fed	16
It's not the size of the bank, but its competence	17
Community Reinvestment Act	18
The Coke formula	19
Labor unions in banks	20
Continental stockholders took a bath	22
Should offshore deposits be insured?	23
Banks lending to foreign countries are alerted to pitfalls	25
No insurance but, notes were given	27
Paying interest on reserves	28
The Baker Plan	30
Merger mania	32
Suit against Shawmut regarding ATM's	33

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Biographical sketch of the nominee	34
Letter from the Federal Reserve General Counsel to the Office of Government Ethics concerning nominee	52
Response to written questions of:	
Senator D'Amato	68
Senator Karnes	73

NOMINATION OF JOHN P. LaWARE, TO BE A MEMBER, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

THURSDAY, JULY 7, 1988

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 10:40 a.m., in room SD–538, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Dixon, Shelby, Graham, Garn, D'Amato, Chafee, and Karnes.

OPENING REMARKS OF CHAIRMAN PROXMIRE

The CHAIRMAN. The committee will come to order.

We are delighted to have our two distinguished Senators from Massachusetts here to introduce Mr. LaWare, who's been nominated as a Governor of the Federal Reserve to serve until the year 2002.

Mr. LAWARE. Sounds like a long way away.

The CHAIRMAN. Well, I'll be out in the cemetery for about 5 of those years. [Laughter.]

Senator CHAFEE. Running, not resting. [Laughter.]

The CHAIRMAN. It's good to see you.

Senator SHELBY. Mr. Chairman, if you would yield, I would hope you all both aren't in the cemetery, because otherwise he wouldn't make the term. [Laughter.]

The CHAIRMAN. Well, I'm sure Mr. LaWare looks in fine shape and he's a much younger man and there's something about Massachusetts that makes people live a long time.

I'm going to ask before we have statements from the members of the committee, because of the pressure of time and because the Senators from Massachusetts have already been over here, I'm going to ask Senator Kennedy and Senator Kerry to make whatever statement they would like to make in connection with the nominee.

STATEMENT OF EDWARD M. KENNEDY, U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

Senator KENNEDY. Thank you very much. Mr. Chairman and members of the committee, I want to say that today Massachusetts claims a special relationship with the nominee but we also know

that's shared with Wisconsin because Mr. LaWare was born in Wisconsin and spent his early years in that State.

I'm delighted to have the opportunity to present him to the committee. Mr. LaWare has been a distinguished successful businessman in the banking industry of Massachusetts involved in the Shawmut Bank and brought it to one of the most prestigious positions within the national banking system dealing with the new challenges that deregulation has brought. He's been very successful.

I think many of us in our State realize that with his successful vote in the U.S. Senate we're going to lose a person who's been enormously involved and active within the community of Boston as well as the Commonwealth. He has demonstrated a really unique involvement in both the great medical institutions and educational institutions. Much more than just a letterhead in any publication, he has been very, very much involved and has made an extremely important contribution to many of these institutions and the gain to the Federal Reserve will be the loss to those institutions.

At a time when we are facing extraordinary challenges in terms of the international banking system, Third World debt, and other financial international challenges, I think the Federal Reserve Board will be well served by Mr. LaWare. I have great confidence in his judgment, although that confidence was really questioned when I found out that Mr. LaWare made a contribution of $500 to Ray Shamee in Massachusetts, but my confidence was restored when I found out that it wasn't when Mr. Shamee was running against me, but my colleague, John Kerry. [Laughter.]

So throughout his record he has had an impeccable sense of selection and good success.

Mr. Chairman, I appreciate the chance to be here and present him and I'd like to file my complete statement.

[Committee insert of Senator Kennedy's statement follows:]

PREPARED STATEMENT OF SENATOR KENNEDY

Mr. Chairman, members of the Banking Committee, I am delighted to be here this morning with John LaWare and to unreservedly commend him to you. In nominating Mr. LaWare to the Board of Governors of the Federal Reserve, the President has made a wise choice. I should note, Mr. Chairman, that I had intended to extol the virtues of this son of Massachusetts, but, in fact, he was born and raised in Columbus, WI. I guess we will have to share him with you.

John came to Boston over 10 years ago and during the ensuing decade has left a large imprint on our community. During his tenure, the Shawmut Corp. has grown and prospered. Today it is among the largest and soundest bank holding companies in the Nation and it played a major role in financing the economic recovery of Massachusetts and the region.

I am sure that his professional accomplishments are well known to the members of this committee and require no celebration from me, but I would like to take a minute of your time to note that John is more than a wise and successful banker who will make a fine Governor of the Federal Reserve Board.

In addition to leading Shawmut into a new world of deregulated regional banking, he has also led the institution into active involvement with the civil life of Boston. That involvement has gone well beyond the usual name on a letterhead and from Children's Hospital to Roxbury Community College, our city's life is much richer because of John LaWare. I must say that my one regret concerning this nomination is that so many of the most important educational institutions and hospitals that grace my home State will lose his wise counsel and energetic support.

The Federal Reserve Board faces daunting challenges as we enter the last decade of the century. Deregulated and internationalized financial markets, seemingly in-

tractable debt burdens in the Third World, and an even worsening crisis in our thrift industry head a long list. As the Board confronts these and other questions in the years ahead, I am sure that his colleagues will learn, as I have, to turn to John for wise counsel and advice.

Once again Mr. Chairman I congratulate the President on this nomination and commend John LaWare to you.

I must excuse myself in order to chair another hearing but if I can be of any help as you proceed I am at your disposal. Thank you.

The CHAIRMAN. Senator Kerry, it's your turn to discuss the man who contributed $500 to your opponent. [Laughter.]

STATEMENT OF JOHN F. KERRY, U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

Senator KERRY. Well, obviously, Mr. Chairman, that contribution raises more questions about my judgment in being here than his, but notwithstanding my obvious bad judgment I am delighted to be able to be here and join my senior colleague in introducing a good friend.

I did think about the $500 and I came to the conclusion that since the maximum was $1,000 and he only gave $500, he obviously was just doing it because he felt compelled to keep the democratic process moving forward and it was mitigated by the other $500 that didn't go there. [Laughter.]

Mr. Chairman, I think that my senior colleague has obviously introduced the qualifications and the extraordinary background that John LaWare brings to this job prospectively.

He really has been one of the most important cogs in the Massachusetts economic wheel, if you will. He's been chairman of the Association of Bank Holding Companies. He has played obviously a key role as chairman of one of our most important banking institutions. But beyond that, he has really contributed significantly to the entire community, not just in his contributions to the important debate which has gone on as we have come into increasingly difficult questions about the flow of capital in the new global marketplace, about regulatory reforms and issues about the structure of financial institutions as we move into the future, and I think he will clearly be able to address those kinds of concerns here, as members of the committee have already heard him to in the past.

But in addition to that, I think that he has deep understanding about the competitive needs of this country and the ways in which the Federal Reserve Board acts to be both a protector as well as a catalyst in that process of guaranteeing the economic security of the country and I'm quite confident that his service on that board, if it is the full service into the 5 years of your presence in the cemetery, Mr. Chairman, will at least guarantee the security of that plot.

The CHAIRMAN. How reassuring can you get? [Laughter.]

Senator KERRY. Though obviously none of us believe that that is true, Mr. Chairman. You will outlive all of us as chairman in some respect, emeritus.

Mr. Chairman, I really think that John LaWare is one of the most capable people who could be nominated for this job and while I know the chair has expressed concerns about the overlapping and the question of the number of nominees the incumbent President might have appointed versus whoever might be the future Presi-

dent, I'm quite confident that any President of the United States would have seen fit to nominate Mr. LaWare because of his capacity, his fairness, his decency, and his very deep understanding of the issues that we face.

And I'm delighted to be here to join in introducing him.

The CHAIRMAN. Thank you very much, Senator Kerry.

I'm going to yield to other members of the committee and then I will swear Mr. LaWare in. Senator Garn.

OPENING STATEMENT OF SENATOR GARN

Senator GARN. Thank you, Mr. Chairman.

John, I'd like to welcome you back to the Banking Committee. This is not your first appearance before the committee. I congratulate you on your nomination to be a Member of the Board of Governors of the Federal Reserve System.

I believe the President has made an excellent choice. You have hands-on experience in the day-to-day operations of a commercial bank and you will be a great asset to a great Federal Reserve Board of Governors.

John LaWare, in my opinion, will bring to the Board an impressive record of hands-on experience. Altogether, he has over 35 years of experience in commercial banking with two of the most respected commercial banks in the country. As I've already suggested, Mr. LaWare is no stranger to Washington. Many of the members of this committee got to know him when he served as chairman of the Association of Bank Holding Companies in 1986 and 1987. In that role, Mr. LaWare was a thoughtful and persuasive voice advocating expanded products and services for financial services holding companies.

As everyone here knows, I join Mr. LaWare in a conviction that such an expansion of product and service offerings will lead to significant benefits for consumers of financial services and also will lead to a strengthening of the competitiveness of American financial institutions and the American financial markets.

Mr. LaWare, I hope that one of the first experiences you have as a Member of the Board of Governors will be to see the President sign the kind of progressive financial restructuring bill that you've worked so long and hard to bring to fruition—and I'm particularly referring to the Proxmire bill.

We're happy to have you before the committee today.

[The complete prepared statement of Senator Garn follows:]

PREPARED STATEMENT OF SENATOR GARN

Today we hear from each of our past three Bank Board Chairmen. Yesterday's witnesses from the thrift industry pointed fingers at just about everyone in spreading the blame for the FSLIC problem—except themselves—but they reserved their special venom for the policies of each of you. Now is your chance to respond. How much of the problem was caused by Bank Board policies? What is the situation now? Is the Bank Board regulatory system up to the task of handling the problems before it in both the short term and the long term? These are questions you should address.

It is also your chance to tell us where you think Congress should go from here, both in the short term and the long term. I will be particularly interested to hear your views on the establishment of a bipartisan commission to make recommendations about the problem in the next 6 months.

The CHAIRMAN. Senator Shelby.

OPENING REMARKS OF SENATOR SHELBY

Senator SHELBY. Mr. Chairman, I have a written statement for the record that I'd like to submit for the record and ask unanimous consent to do that.

The CHAIRMAN. Without objection, it will be printed in full, along with Senator Dixon's prepared statement.

[Committee insert of Senator Shelby's and Senator Dixon's prepared statements follow:]

STATEMENT OF SENATOR RICHARD SHELBY

Mr. Chairman, I'd first like to commend you for holding this hearing today. I am glad that this committee has this opportunity to meet Mr. LaWare and discuss some of the issues that he would address in his capacity of a Federal Reserve Governor.

Mr. LaWare would bring to the Federal Reserve 34 years of banking experience. He worked his way up the ladder, starting in a bank training program, and ending as a chairman and CEO. During his tenure, it is fair to assume that Mr. LaWare has developed a great wealth of expertise.

Traditionally, Mr. Chairman, I believe we appoint economists to the Federal Reserve Board. I have nothing against economists, indeed I have a great respect for their particular sort of esoteric wisdom, but I believe that Federal banking regulation could not help but benefit from the experience of a successful, lifelong banker.

Once again, I appreciate your scheduling this hearing. I look forward to hearing from Mr. LaWare.

STATEMENT OF SENATOR ALAN DIXON

Mr. Chairman, I am pleased to be here this morning as the Banking Committee meets to consider the nomination of John LaWare to be a Member of the Board of Governors of the Federal Reserve System. I look forward to hearing the views of the nominee on the many difficult economic issues currently facing the United States and our banking system.

This is a time of major change for our financial services industry. Our financial markets have fundamentally changed, and our laws and our regulatory systems must recognize that change. Further, with the United States facing record trade and budget deficits, the conduct of monetary policy is probably also more difficult now than it has ever been in the past. This is a time, therefore, of real challenge for the Congress and for the Federal Reserve Board. It is absolutely imperative to have Governors that can meet these challenges.

Senator SHELBY. Mr. LaWare, I, too, want to welcome you to the committee. I am impressed with your long banking experience, the fact that you have a good educational background, but more than that, the 30-something years you spent in banking, and I believe that would add a lot to the Federal Reserve Board and I believe, as Senator Kennedy and Senator Kerry both have said, that you will bring some other dimensions there.

I look forward to the hearing and look forward to supporting you.

Mr. LAWARE. Thank you, Senator.

The CHAIRMAN. Senator Chafee.

OPENING STATEMENT OF SENATOR CHAFEE

Senator CHAFEE. Thank you, Mr. Chairman.

I, too, want to welcome Mr. LaWare here. He has a connection with our State since his bank has a banking subsidiary in Rhode Island. So we're experienced with Mr. LaWare and have great respect and admiration for him.

He has this vast experience as has been mentioned. He served as a Member of the Federal Reserve Advisory Board and also of the Board of Directors of the Boston Fed. So he doesn't come to this without knowing a good deal about the Federal Reserve.

I think it's splendid that the Federal Government has been able to entice a person of Mr. LaWare's abilities into the Federal Government. That's what we want. And I think we're facing tremendous challenges in the whole banking system, particularly with the competition from abroad. And Mr. LaWare, as the chairman and chief executive officer of a major regional bank, can make a tremendous contribution.

It seems to me in this year we ought to select somebody from Massachusetts to go into Federal service and I think Mr. LaWare is the man. And also, I think one is enough. [Laughter.]

I also looked over the list of Mr. LaWare's political contributions and, Mr. Chairman, I can assure you that he's been consistently a Democratic contributor, which I'm not sure what it shows. He did give some dollars to Margaret Heckler, so it shows that every contribution he's made has not been to a winner, but despite the fact that he's had a predilection for the other side, I think he'll make a wonderful Member of the Federal Reserve and we're very, very glad you're taking it on.

Mr. Chairman, I hope this committee can move right forward today and get him confirmed as soon as possible.

The CHAIRMAN. Senator D'Amato.

OPENING REMARKS OF SENATOR D'AMATO

Senator D'AMATO. Mr. Chairman, I have a number of questions I'd like to submit for the record and ask that they be responded to in writing.

The CHAIRMAN. Without objection, so ordered.

Senator D'AMATO. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. LaWare, will you raise your right hand?

[Whereupon, the witness was duly sworn.]

The CHAIRMAN. Mr. LaWare, I'm entering into the record at this point a copy of a July 6 letter from the Federal Reserve general counsel to the Director of the Office of Government Ethics concerning your nomination.

That letter refers to various commitments you made to dispose of your stock and to recuse yourself from voting or participating in certain matters.

Will you commit to this committee to observe all of the agreements referred to in the general counsel's letter of July 6?

Mr. LAWARE. Yes, sir, I will.

The CHAIRMAN. Thank you.

Mr. LaWare, on February 23 of this year you negotiated a rather lucrative golden parachute agreement with the Shawmut National Corp. Under that agreement you will receive 5 years' salary plus increases, whether or not your employment termination was involuntary.

One of the provisions of that agreement required the Shawmut National Corp. to reimburse you for any excess parachute payments under section 280(g) of the Internal Revenue Code.

As you know, that's the excise tax. In other words, if you have to pay an excise tax on it, which the Congress decided should be done in golden parachute cases, it wouldn't adversely affect you, it would adversely affect your former company.

As you know, the Congress took action in the tax law to reduce the excessive golden parachute payments. Your agreement seems to be an attempt to get around that public policy.

How much of your golden parachute payments will be subject to an excise tax under the Tax Code?

Mr. LAWARE. I don't have that figure in my head, Senator.

The CHAIRMAN. I understand that your pay is about $500,000 a year and so the golden parachute at 5 years would be $2.5 million, and as I understand it, the law provides that 3 years is the maximum that would not be subject to the tax. Therefore, it would be about $1 million that would not be taxed by you but would be taxed to the Shawmut Corp. so you would be saved approximately $200,000.

How can you justify this attempt to dodge the provisions of the Tax Code?

Mr. LAWARE. Well, I'm not quite sure I think it's dodging it, sir. The contract was negotiated on this basis as part of their merger of the two organizations. The four senior officers of the company had essentially the same kinds of contracts. Because of my age—my advanced age, being 10 or 11 years older than the other three members of the senior management group—I was given the privilege of leaving at any time but still having that stream of income secure to age 65.

The feeling was that if there was a violation of the intent of the law with respect to excess parachute payments and if this was regarded as a parachute, then the company would undertake to gross up the amount paid to me to cover that tax. So the tax is getting paid regardless. So I'm not sure that there's a tax dodge involved since the Federal Government is getting the same amount of money they would have received otherwise.

The CHAIRMAN. Well, the Federal Government is, but the idea, as I understand it, was to discourage excessive payments which directors and officers in a sense voted themselves at the expense of the corporation and of the stockholders.

As you may know, the Senate voted on a golden parachute amendment offered by the distinguished Senator from Colorado, Senator Armstrong, who's a member of this committee, and that was a measure that would have prohibited golden parachutes flatly. It passed the Senate 98 to 1 a short time ago. My staff reminds me it would have prohibited the excess payments unless approved by the stockholders.

Was your settlement approved by the stockholders?

Mr. LAWARE. Specifically, it was not voted on by the shareholders, but the shareholders, in approving the merger, had approved the principle of having the senior officers covered by employment contracts which you would call, or you would classify, as a parachute. So that shareholder approval, in principle, without regard to the specific amounts and specific terms, is in the record.

The CHAIRMAN. The specific amounts of course is the whole crux of it. Obviously, if there is a provision for a relatively modest set-

tlement for an executive leaving a corporation, that's one thing. But 3 years was the definition of what might be considered by Congress to be in excess and yours was 5, and obviously a $2.5 million settlement is golden in an important sense.

Mr. LAWARE. Yes. I think that the directors who approved unanimously the structure and the specifics of those contracts felt that they were acting for the shareholders and on the shareholders' authority as granted in the approval of the merger.

The CHAIRMAN. Mr. LaWare, let me now get into something else. I'm concerned, and I'm sure you may well be concerned, with the enormous debt in this country and the huge increase in debt in recent years. The Federal debt is what we've been concerned with and are responsible for in the Congress. It's enormous, $2.5 trillion.

Business debt, as I understand it, is much bigger than that and household debt is over $3 trillion and business debt, if you include not only corporate debt but farm debt, unincorporated debt, including proprietorships and individual partnerships and so forth, is over $4 trillion, according to what I got from the Federal Reserve just a few days ago.

This adds up to about $10 trillion in debt. As you know, it's increased enormously in recent years. One reason why it's increased it seems to me is that the regulator of debt, which is really interest payments, has been somewhat encouraging to people to get into debt and discouraging people to save money.

The household debt has increased at a time when savings have dropped lower than they've been historically throughout most of our history and it seems to me on that basis, if we're going to do something direct and explicit about encouraging saving and discouraging debt, one way would be to follow monetary policies that would tend to increase interest rates. I realize that has other important ramifications, but what's your reaction to that notion?

Mr. LAWARE. Household debt, to the extent that it constitutes mortgage debt or credit card debt or installment debt is generally at pretty high levels of interest rates now. And in spite of the fact that our savings rates—that is, rates of interest on savings kinds of instruments have risen since deregulation in 1982, people still have a propensity to borrow for household purposes and they did so even when rates were at 20 or 21 percent. Credit cards were used extensively.

I'm not sure that raising rates is necessarily going to discourage people, households and the consumers in particular, from borrowing. I think we have seen some leveling off in our consumer spending and to some extent the growth in some consumer debt is a result, I'm persuaded, of the 1986 tax revision which removed the deductibility of interest on normal installment debt.

The worrisome consequence of that is that a lot of borrowing has shifted into equity borrowing against people's homes, and while that in itself is not an evil thing, it's a question of how it's administered. If the amounts of debt are too high in relationship to the value of the home or if they are difficult for borrowers to service given any kind of a downturn in the economy, then I think that could be a bad development. But we don't see any signs of that at this stage of the game.

The CHAIRMAN. Mr. LaWare, my time is up. I'm not going to ask you to answer this or we'd go on and on, but I might point out that I think everybody agrees that borrowing to buy homes is enormously sensitive to interest rates. If you raise interest rates, you just see a very sharp prompt falloff in housing starts because of the sensitivity of it and because people look at the monthly payments they have to make.

The same thing is true, to a lesser extent, but it's still true of auto loans. So the enormous amount of borrowing goes into buying homes and buying cars would be obviously directly affected by the level of interest rates. My time is up. I'll be back.

Senator Garn.

Senator GARN. Thank you, Mr. Chairman.

Mr. LaWare, before I ask any questions, did you desire to make an opening statement?

Mr. LAWARE. Well, I have about six lines here that I would like to read.

STATEMENT OF JOHN P. LaWARE, NOMINATED TO BE A MEMBER OF THE BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. LAWARE. Mr. Chairman and other distinguished members of this committee, I am highly honored to have been nominated by the President to the Board of Governors of the Federal Reserve System.

I want to thank you, Mr. Chairman, and the committee for hearing me today and thank Senators Kennedy, Kerry, and Chafee for their very generous remarks as well as yours, Senator Garn.

I am a banker, not an economist. I am a pragmatist, not an ideologue. I believe that my 35 years of experience in banking will enable me to make a significant contribution to the work of the Board in the years to come. I'll be happy to answer any questions.

The CHAIRMAN. Senator Garn, I want to thank you very much for doing that. I should have done that and I apologize to you, sir. It was a fine opening statement.

Mr. LAWARE. I suspect you like it because it was brief, Senator. [Laughter.]

Senator GARN. That reminds me of a story that I might as well tell you. When I was chairman of the committee, the former Chairman of the Federal Reserve Board, Paul Volcker, came in to testify. I asked him one day if he would please summarize his statement when he was making his semiannual report, and he did. Six months later when he came back, I asked him if he would please read the entire statement so that it would take less time. [Laughter.]

Mr. LaWare, what are your views on the risk-based capital plan that has been proposed by the bank regulators?

VIEWS ON THE RISK-BASED CAPITAL PLAN

Mr. LAWARE. I think it's a great step in the right direction. I think that view is shared in principle by most leaders in the banking business. There has been some concern that some of the measurements are too restrictive, but I think that on balance it's a very fair approach. The banks in some of our competing countries, nota-

bly Japan, have had to make sacrifices in terms of the way they count capital that have probably been more severe than those imposed on U.S. banks. I think we've struck a very good balance, and I think it tends to level the playing field. I'm sure that the U.S. banks will be in a more evenly and competitive environment.

Senator GARN. What about its effect on safety and soundness regulation?

Mr. LAWARE. Well, I think it should help safety and soundness because it is risk-related in terms of the amount of capital required to carry certain kinds of assets, and therefore it will encourage banks to be more careful about how they allocate their funds. While the net effect is not to bring about a significant increase in basic capital in the system, it will tend to bring up some of the banks that are the skinniest in terms of capital over a period of time to a level where they were several years ago.

Senator GARN. So you would feel that on a net basis it's a net plus both for safety and soundness and a net plus on competitiveness?

Mr. LAWARE. Yes, sir.

Senator GARN. In the past you have been a champion for the financial services holding company approach to restructuring the financial services industry. In that light, what is your view on S. 1886, which is the Proxmire or Senate-passed banking bill?

Mr. LAWARE. I think it's an enormous step in the right direction. I support it generally and specifically. I'm delighted that the banks will now have the congressionally approved ability to participate in the securities markets and certainly that guarantees a big step forward in enabling U.S. banks to be more competitive with their brethren around the world who already have access to the securities markets.

Senator GARN. Well, I might say at this point I'm very disappointed that after all the work the chairman and others on this committee put in on that bill and passed so overwhelmingly on the Senate floor several months ago, that the House of Representatives has still not seen fit to act on anything. And I'm advised they are talking about doing it today, but this is July and we're probably going to end up by September 30. So this isn't a message for you, Mr. LaWare. This is a message for the House of Representatives, that it's about time they did something. They've been treading water for the 14 years that I've been here and unwilling to address the realities of the financial services marketplace changes. So I would hope they would take some action today and get it to the floor as soon as possible so that the chairman and I can go to conference with the House and hopefully work out a bill that will become law this year.

Mr. LAWARE. I hope they're listening.

Senator GARN. While problems remain with the budget deficit and the trade deficit, the U.S. economy in recent years has been the envy of the world. Our economy is in the longest peacetime expansion in the postwar era. We have created 12 million new jobs over the last 5 years, while Western European economies have not on balance created any new jobs.

What role do you see for monetary policy in maintaining such a healthy economic growth as we continue to work on the budget and trade deficits?

Mr. LAWARE. Well, I think monetary policy can attempt to provide stability in value of the currency, a low rate of inflation, and both of those elements I think are very important in creating an environment in which the growth in the economy can continue without recession. And I think that is essential as we begin to work down these other deficits.

The danger at the moment would seem to me to be to prevent the economy from overheating and when we're running at 80 or 83 percent of capacity, we've got to make sure that we stay on the ball.

Senator GARN. The General Accounting Office recently released a study suggesting that the Federal Reserve does not require sufficient reserves against potential losses from Third World debt.

Do you agree with the GAO's study?

DIFFICULT TO LEGISLATE LEVELS OF RESERVES

Mr. LAWARE. No, I don't, because I think that it's very difficult to legislate levels of reserves on net debts. We have reserve levels typically among the banks who are heavy lenders to the lesser developed countries ranging anywhere from 25 to 30 percent up to 75 percent. I think that is less reflective of valuation of the loans than it is of the strategies of those individual bank managements. The people who are reserving the 25 to 30 percent level I think are strategizing that they're going to hold onto that debt and that eventually it will be substantially paid off. They're in for the long pull. The banks that have reserved at the 60 or 75 percent level essentially are getting their reserves up to the point where virtually all of those loans are in the marketable category without taking any further hit to earnings. Those banks I would submit are probably managing those portfolios down, getting them out through swaps, or what have you.

So it's very difficult to arbitrarily set levels of reserves on any of those debts because in the long run—and I do mean long run—I think they're going to be paid off in full.

Senator GARN. Thank you, Mr. LaWare.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. LaWare, you've touched a bit on the international competitive situation of U.S. banks. In 1970, which is only 18 years ago, of the 10 biggest banks in the world I believe 9 were American. In 1988, 9 out of the top 10 aren't American and 1 of the 10 is. And as I understand it, the next ranking U.S. bank is 24th. We don't have a stack right behind just below the 10 margin.

Now my question is twofold. One, what difference does it make as far as U.S. jobs, the U.S. economy, if we don't have banks in the top 10? That's the first question.

Mr. LAWARE. I don't think it makes much difference. I have never felt that the relative worth or strength or position of banks in terms of bottom line on their balance sheet was the real answer. It's how well managed they are and how profitable they are that I

think really is the performance measurement of banks, and I would submit that U.S. banks are competitive in terms of profitability and certainly competitive in management with any banking system in the world.

Senator CHAFEE. So we shouldn't get distressed if the highest U.S. bank were the 25th biggest in the world. Is that right?

Mr. LAWARE. I don't think that's a matter of concern. Now I'm a little bit of a maverick on that because many of my colleagues are very concerned about the balance sheet size. I'm more concerned with the profit and loss statement.

Senator CHAFEE. All right. Let's say 9 of the 10 biggest banks are Japanese or 8 of the 10—let's say 5 of the biggest 10. Does that give them the opportunity to come over here and compete to a greater extent than if they weren't as strong as they are?

Mr. LAWARE. Well, that's kind of a chicken and egg type of proposition. I think that some of their growth is because they have been here and competing. As you know, they all have substantial stakes on the west coast now, having either bought banks or established branches or subsidiaries that are doing quite well. They are very competitive and they are very well managed.

One of the things that this risk-based capital agreement among the 12 nations will accomplish I think is that since you're going to require essentially the same kind of capital base for all these banks, that will be reflected in the rationalization of the pricing mechanism for these banks and will help to make our banks more competitive because banks that were originally thinly capitalized, at least nominally, could price at lower margins and still get good returns on their stated capital.

Now since the capital will be all the same, the same kind of pricing pressures are going to be there for foreign banks as are there for U.S. banks.

Senator CHAFEE. Mr. Chairman, I've got another question. What are all these bells for?

The CHAIRMAN. There's going to be a vote in a few minutes.

Senator CHAFEE. Well, Mr. LaWare, I have kind of a gut feeling that when you see U.S. banks fall from the 9 out of the 10 biggest to 1 out of the 10 biggest, it makes me nervous and just like I like to see General Motors or a U.S. automobile manufacturer the largest in the world, it means we're selling cars in Australia and England and West Germany and France and all over. And I can only assume that when our banks are knocked out of the top spot that somebody else is getting the business somewhere. But you don't share that concern.

Mr. LAWARE. Well, no, I'm not saying that they aren't getting the business; but I'm saying that given competitive equality and the same opportunities, American banks can be competitive. And if that means growing in size, they will grow in size. I think that the chairman's bill will be a good step in the right direction to give U.S. banks a more competitive position, not only in domestic markets but in world markets. Maybe some of those positions will shift back again as we get that more competitive stance.

Senator CHAFEE. Well, I certainly hope so. I share your enthusiasm for the chairman's bill and share Senator Garn's concern that nothing is happening or nothing has happened in the House on it.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I promised Senator Garn I would recognize him for a unanimous consent request.

Senator GARN. Senator Karnes was here and had to leave. I'd like to ask unanimous consent that his statement be placed in the record. In addition, there are some questions that he would like to have Mr. LaWare respond to in writing.

The CHAIRMAN. Without objection, so ordered.

[Committee insert of Senator Karnes' statement.]

88-455 - 88 - 2

Dave Kamm

JULY 7, 1988

STATEMENT IN SUPPORT OF THE NOMINATION OF
JOHN P. LA WARE TO BE A MEMBER OF THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Chairman, I am pleased to be here today to join in supporting President Reagan's nomination of John P. Ware to be a member of the Board of Governors of the Federal Reserve System.

John La Ware has had a distinguished career in the operational aspects of commercial banking, and he would bring a wealth of experience and talent to the Federal Reserve Board. He has been Chairman of the Board of Directors of the Shaumut National Corporation since 1978. Shaumut is one of the 25 largest bank holding companies in the United States and is the product of a merger with the Hartford National Corporation.

Prior to joining Shaumut, Mr. La Ware was with the Chemical Bank in New York for a period of 25 years where he worked his way through the organization to the position as a senior officer of the institution.

He was awarded a Bachelor of Arts degree from Harvard University in 1950 and a Master of Arts degree from the University of Pennsylvania in 1951. John and his wife are residents of Massachusetts and have two children.

Mr. Chairman, I have had the opportunity to meet with Mr. La Ware and he has impressed me. He currently serves as a director of the Federal Reserve Bank of Boston, and he has served as a director and the chairman of the Association of Bank Holding Companies. His philosophy favors principles of financial deregulation and reliance on the marketplace to drive the outcome of important issues.

In short, I believe that, with 35 years of hands-on experience in commercial banking, John La Ware is just the type of person who will serve his country well in this appointment. I therefore believe that the Committee should report this nomination with a recommendation of approval and I trust that the Senate will act swiftly to confirm the President's nomination of Mr. La Ware to be a member of the Board of Governors of the Federal Reserve System.

Thank you Mr. Chairman. I ask that my formal written statement be entered in the record.

The CHAIRMAN. Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

Mr. LaWare, I'm very pleased to have this opportunity to talk with you. While I was a resident of your city, I was a small client of your bank and I appreciate the excellent service that we received.

I am interested in the issue of Third World debt and the policy of the Federal Reserve Board relative to that. We've discussed briefly the question of risk-based capital and the effort being made among the major industrial nations' central banks to regularize that process.

There's concern that the adoption of the risk-based capital will make it more difficult to get the new start capital into countries in Latin America and elsewhere in the world and will necessitate a revisitation of our policy relative to Third World debt. I wonder if you could comment.

The CHAIRMAN. Mr. LaWare, before you respond, I'm going to go to the floor to vote and I'm going to ask Senator Graham to preside for a few minutes. He'll have to leave, too, shortly, but that way we'll save a little time in the hearing.

Mr. LAWARE. I'm not sure that I follow your question. Are you saying that because of the disallowance of the reserves against lesser developed country debt as part of primary capital that——

Senator GRAHAM. The thesis is that in order for these countries to have any chance of paying their existing debt that they've got to reenergize their economies. To do that they have to have some fresh capital, that the risk-based capital system is going to make it more difficult for them to attract the new capital which their economies require. That's the essential thesis. Do you agree with that? If not, why not? And if so, what are the implications?

Mr. LAWARE. I'm not sure that I do agree with it. I think that there is some misinterpretation that the reserve requirement would be a disincentive for making any additional advances.

On the other hand, I think there is a strong understanding in the banking system—and I'm talking now about the major banks who have major commitments in Latin America particularly—that those economies are going to need capital inflows, that there has to be a restoration of interbank deposits into those countries, and that that can take place only if there is a perception that they have the breathing room necessary to revitalize their economies.

I think that the kind of restructuring, the most recent example of which we've seen in Brazil, tends to create an environment where they do have breathing room. There's fresh money going in and most of that will be used to service the existing debt. At the same time, they are lifting some of the pressure for this constant restructuring to give them some breathing room.

I think more of that kind of approach to the solution with regard to Mexico and Argentina can be a very constructive thing. We've come a long way in the last 4 or 5 years in dealing with this problem. The amount of these loans in relationship to the capital of the banks that are involved has gone down from about 190 percent to less than 100 percent of the capital. That's still too high, but we are working it down and we are getting some intelligent, long-term

restructuring. I think in the final analysis that's what's needed in order to give them some breathing room.

Senator GRAHAM. Mr. LaWare, I apologize, but we have a vote underway. We will recess at this point and reconvene as soon as possible.

Mr. LAWARE. Fine.

[Recess.]

The CHAIRMAN. Mr. LaWare, on June 22, 1986, you wrote an op ed piece for the New York Times. You made a good case for our bill in that piece, although it preceded of course the bill, but you made a good case for the bill that would repeal Glass-Steagall in effect and permit banks to compete in underwriting.

ITS NOT THE SIZE OF THE BANK, BUT ITS COMPETENCE

And I was glad to hear your answer to Senator Chafee's question on the size of banks and how it's not the size, it's the competence, and our banks are big enough to do the job. As a matter of fact, as I understand it, the economy of scale stops with a relatively small bank and we don't have to have a colossal size.

But I want to ask you about that letter because in that letter you make a statement which concerns this Senator and I think would concern the Congress considerably. You say with respect to the attitude of consumer groups that have been critical of banking, you say:

> Regrettably, consumer groups see in the emergency atmosphere an excellent opportunity to advance their agenda. They are urging Congress to tighten further the regulatory noose that for more than half a century has constrained the ability of banks to compete. Specifically, they are pushing for a test that interstate acquisitions would not dilute local competition, for public disclosure of the acquiring bank's community reinvestment record, and for disclosure of the geographic placement of loans by the acquired bank.

Now part of that was certainly as far as the community reinvestment record is concerned—I was the author of that I believe and it went through this committee and it went through the Congress with considerable enthusiasm—and it seems to me that the logic behind that Community Reinvestment Act makes all the sense in the world.

What we're simply saying is that if a bank is located in a particular community and takes deposits in that community, that there at least ought to be some kind of a record of that fact made public, made available to the public, and that the Federal Reserve Board, the regulators, should take into consideration whether or not the bank reinvested in the community from which the deposits came.

As you know, we've had a problem over the years with red lining. We've had hearings before this committee this year which have indicated significant red lining. We've had great leadership from banks in Philadelphia and elsewhere which have said they will make a loan to any ethnic group in any area, black, white, hispanic, whatever it is, depending on the credit record of the borrower and the soundness of the structure in which they are making the loan.

They've done that and they've done that profitably and they've found there's been no significant loss in that kind of an operation.

In fact, its been profitable to proceed that way. But somehow we have a record of regulators being very weak in enforcing the Community Reinvestment Act. It's like a professor who gives everybody in the class an A even if they don't come to class and it's been a situation where the only real enforcement of CRA is by the communities themselves when they have activist people come in and insist on getting the records and then publicizing the records.

COMMUNITY REINVESTMENT ACT

That was true in Chicago and it was true in some other places. So I'm concerned with you as a regulator and because you have perhaps more experience than anybody else on the Federal Reserve Board as a governor they will look to you for advice and for leadership—I'm concerned that the Community Reinvestment Act and other consumer protection legislation, like the Truth-in-Lending Act and so forth, may not be in warm, friendly hands with you as the leader on the board.

Mr. LAWARE. I think perhaps you're misinterpreting what I said in that quotation. I have no quarrel at all with the Community Reinvestment Act nor with its enforcement.

The CHAIRMAN. Well, let me just say, we have a quarrel with the enforcement. We think it's been very weak and very inadequate and not at all vigorous.

Mr. LAWARE. I mean with the principle of enforcement.

The CHAIRMAN. OK.

Mr. LAWARE. We have an excellent record in my institution in CRA and I think that you will find that the Federal Reserve's approval of applications has been quite forceful in obtaining satisfaction for community groups who have objected to a particular application on the basis that the banks involved have not been living up to the spirit of the Community Reinvestment Act.

There is no stipulation that they have to actually turn one down, but I think that the moral pressure that has been exerted in several instances has resulted in very constructive application of the Community Reinvestment Act.

I couldn't agree with you more that a bank that operates in any community has a responsibility in that community to all the people in the community and we have a very good record in that respect in Boston.

What I was objecting to in the piece in the New York Times was the proposal that there be some sort of score attached to the performance of individual institutions.

The CHAIRMAN. What's wrong with that?

Mr. LAWARE. And then put that up in public. Well, in the first place, it's a very subjective kind of a judgment as to whether there's been compliance.

The CHAIRMAN. Well, let me give you an example. Supposing the regulators find that a bank has taken its deposits overwhelmingly from the community, 80 percent, and only reinvested 40 percent or 20 percent in the community. Why shouldn't the public know that?

Mr. LAWARE. Well, what's the standard against which that's being measured? Let me just digress for just a second. The Federal funds market——

The CHAIRMAN. Well, if you can justify it, fine. I'm not saying that 40 percent or 20 percent may be justifiable, but justify it. Why not let the public know what your arguments are for doing that?

Mr. LAWARE. Yes, but the proposal was that you have a score of some kind.

The CHAIRMAN. Well, that's what the score would be based on, as I understand it.

Mr. LAWARE. If you've got a score, an absolute measurement of some kind, and you're going to apply that to every community, how then can you justify it? You say, well, you get a C-minus because you're only 40 percent reinvested in the community and yet that may be justifiable in that community, but how do you defend yourself against the C-minus which is being handed out to you.

The CHAIRMAN. Well, I wouldn't necessarily argue for the C-minus, but I would argue for disclosing the proportion that goes back into the community compared to the deposits that come from the community. Again, it may be wise for the community in the long run to have a bank have a relatively low score, but then they should defend that and there's no reason why the public shouldn't know it.

Mr. LAWARE. I don't have any problem with that, Senator, but what I do have a problem with was some sort of a rigid scoring system that can't be applied to anything that's subjected to——

The CHAIRMAN. Well, I think rigidity in the sense that you give the facts, you let people know (a) what the deposits are; and (b) where that money has gone.

Mr. LAWARE. I don't have any problem with that.

The CHAIRMAN. Then you have an interesting sentence in your statement. You say:

> The same holds true for disclosing a geographic placement of loans. For a bank to reveal this sort of information is like Coke revealing its formula. Such a requirement would discourage many banks from engaging in rescue operations.

THE COKE FORMULA

Just 2 days ago the Wall Street Journal discussed the Coke formula and said that Coke isn't named Coke by any accident, that it contains cocoa beans, the same thing that cocaine comes from, and some of the reasons why people get a habit from drinking Coke, which I know you and I don't drink, is because they get the same thing that they get if they snorted coke—cocaine I mean.

Mr. LAWARE. I hope you're not making any analogies to the banking business. We don't snort. [Laughter.]

The CHAIRMAN. Well, your statement was that it shouldn't be revealed. It seems to me it was good to reveal—I can't understand why the Coca-Cola formula is so precious, why it shouldn't be revealed to the public. At the same time, I can't understand why the geographic placement of loans should be sacred. You say, "The same holds true for disclosing the geographic placement of loans. It's like revealing the Coke formula."

Why shouldn't it be desirable for the public to know? What's wrong with a bank being required to say, "We invest so much in the community and so much goes to Central America and so much goes to California, to Wisconsin, to Columbus," whatever?

Mr. LAWARE. I guess that may be an industry attitude. We think that we give pretty full disclosure of what we do. Our 10(k)s and our annual reports probably give more disclosure than almost any other industry. And it's probably a sort of defensive reaction toward the encroachment of even more disclosure without anybody really caring. Who cares where a bank has its loans?

The CHAIRMAN. Well, I'll tell you.

Mr. LAWARE. To say, well, we have $50 million of loans in Arizona, and we have $100 million of loans in Wisconsin, and we have $5 billion of loans in Massachusetts——

The CHAIRMAN. I would care if a bank were putting its money right now into Texas or into South America. I'd be concerned about that.

Mr. LAWARE. Well, it isn't so much putting it in there now. It's trying to get it out.

The CHAIRMAN. Well, that's right. But I don't know why disclosure, which of course is the essence of Truth-in-Lending and so much else that we've been able to progress with over the last 20 years, shouldn't be useful for the consumer and for the bank. They can compete more effectively if people know.

Mr. LAWARE. In principle, I have no problem with disclosure if there's some good reason for disclosing and if the public or the Congress in its wisdom decides that kind of disclosure is appropriate, I'm sure the banking industry would cooperate.

LABOR UNIONS IN BANKS

The CHAIRMAN. Mr. LaWare, Shawmut is not represented by any labor unions. During the last decade two unions were organized but later disbanded.

Why do you believe that labor unions haven't succeeded at Shawmut?

Mr. LAWARE. Well, frankly, we have a pretty good compensation program, excellent working conditions, our salaries and wages are more than competitive in the marketplace. Unions have a great difficulty in convincing our employees that they would be better off in a union. Witness the fact that one of the unions that was formed subsequently the members voted to ask for dissolution.

The CHAIRMAN. In Boston, is it uncommon for a bank to have a union represent the employees?

Mr. LAWARE. Yes, it's very uncommon.

The CHAIRMAN. I think that's probably true. I think it's unfortunate because my experience as an employer and previously as a union member were that if you have a union shop you can hire anybody you want and the union can negotiate on a more or less equal basis with the employer for wages and working conditions and I think it's a healthy situation. But I understand if you have a situation where none of your competitors have it, it's expecting a lot to set the pace in that particular area.

Let me ask you this. On May 8, 1987, Shawmut paid $295,000 in civil penalties in connection with infractions of antimoney laundering law between 1980 and 1985. Shawmut was credited with volunteering its guilt and with instituting corrective measures.

Can you tell me the history of Shawmut's infractions and those corrective actions?

Mr. LAWARE. Yes, sir. In 1980, the cash disclosure or cash transaction reporting requirements were changed. Where previously a bank could exempt certain customers from the requirements of that reporting mechanism to the Treasury Department, the new requirement was that you could have names of customers on the exempt list only after they had been specifically approved by the Comptroller's office.

We picked up the changes that had been published, but we failed apparently to flag them sufficiently so that our branches left customers on the exempt list and failed to report subsequent cash transactions really without any intent to violate the law but simply because they had not picked up the changes.

The CHAIRMAN. How long did it take you to make that correction?

Mr. LAWARE. Well, we did not pick it up and the examinations did not pick it up and when one of our sister institutions in Boston was getting a lot of unfavorable publicity for failure to file these reports, we instituted our own investigation of our own bank and discovered these names on the exempt list that had not been authorized to be there.

So we went immediately to the Comptroller and to the Treasury and reported the fact that we were delinquent and had not been in compliance, and we made all those past due filings and brought the record up to date.

We were then investigated by the U.S. attorney in Boston to see if there were any criminal involvement. They found that there was none. So we paid the statutory fine for the failure to file those applications. But it was a civil fine, not a criminal fine.

The CHAIRMAN. Now a recent article in the Washington Post stated:

> America's total foreign debt climbed to $368.2 billion last year, a 36.8 percent increase over the 1986 total, as the United States solidified its position as the world's largest debtor nation.

Now in a press briefing on this matter the Commerce Under Secretary, Robert Ortner, the administration's spokesman, argued that these figures should not be a cause for concern. He said:

> Foreigners are voluntarily participating in our economy because they find it attractive. I think this is a much fairer description than America as a debtor nation.

So let me ask you, does America's increasing debtor status cause you concern and, if so, why?

Mr. LAWARE. Yes, I don't like the trend. I would like to see a somewhat more favorable one. Unfortunately, the numbers that we're dealing with here are not a terribly accurate appraisal of what the situation is.

If you remember, the great burst of American investment abroad, which is our side of that balance sheet, was made anywhere from 30 to 40 years ago right after the war and during the 1950's and 1960's. Those items are carried in this report at book value, which is the original investment value at the time those investments were made.

On the other side, the investment in the United States, much of which has taken place in the last 5 to 10 years, is also carried at book value, but those values are higher.

The CHAIRMAN. Let me interrupt. That's a very interesting comparison, but were these debts really 40-year debts? That's unusual.

Mr. LAWARE. Well, it isn't debt. It's investment. We call it debt, but it's foreign investment in this country. It's not that we are necessarily borrowing from abroad.

The CHAIRMAN. You mean the investment that we made abroad that you say is 40 years old or 30 or 40 years old, that a great proportion of it has never been turned over, there's never been any transactions that would bring it up so that it doesn't reflect inflation, it doesn't reflect——

Mr. LAWARE. It's never been marked to market, if you will, Mr. Chairman. If you marked it to market, it would be substantially higher.

The CHAIRMAN. I'd like to see an analysis of that. Maybe the Federal Reserve has something. That's a very interesting qualification in our net debt.

Mr. LAWARE. It doesn't change the worrisome nature of the current trend, but I think it may change that balance number in the final analysis.

I am inclined to think that the investment in this country is a relatively healthy thing if it doesn't get so large—that is, the balance doesn't get so large that we would have difficulty servicing it.

The CHAIRMAN. Well, I agree with that. It's the onesidedness that is of concern. The mobility of capital is fine.

Mr. LAWARE. Being a debtor nation—after all, we were a debtor nation up until the beginning of World War I and it was that foreign investment that built our railroads and most of our industry.

The CHAIRMAN. Well, that's right, but we certainly don't have that kind of a situation now or anything like what it was when we were building our industry in the 19th century.

The Federal Deposit Insurance Corporation is required to insure deposits up to a value of $100,000 in the event of a failure of an insured institution. In practice, all deposits, including those over and above $100,000 have been insured. There haven't been any real losses in depositors.

Is this policy of insuring all deposits a wise one? Can you discuss the ramifications of limiting the guarantee to the $100,000 limit? Should we make the guarantee to all depositors explicit?

Mr. LAWARE. Well, many of us were opposed to raising the deposit coverage from $40,000 to $100,000 which was done several years ago, feeling that you can never reverse that kind of a trend. Therefore, the higher the ceilings were, the more we were building expectations that there was some sort of a safety net that was going to cover all depositors.

CONTINENTAL STOCKHOLDERS TOOK A BATH

Unfortunately, the realities of some of these large troubled bank operations—and Continental is perhaps the best example—are that you could not stabilize the situation and stop the run because it's largely a corporate run by depositors who held more than $100,000.

You couldn't stabilize the situation without in effect implying or stating a guarantee for all the depositors. And that, of course, brings up the ethical question of whether big banks are too big to fail and whether that isn't unfair to the small banks that in fact are allowed to fail?

I would submit to you that in the case of the small banks, it's tragic because it is a disruption in that community when a bank fails, but for the most part the depositors have not been damaged when that happens. It's the shareholders and the management who are washed out.

The CHAIRMAN. That's true with the big banks, too, isn't it?

Mr. LAWARE. Sure.

The CHAIRMAN. When Continental, for instance, the management was in effect kicked out, the stockholders took a bath. That was exactly the same as a failure would be of a manufacturing company, except the depositors who had a commitment were saved. That's all.

Mr. LAWARE. The rescue operation was, I feel, justified by the fact that the ripple effect of the failure of that bank would have created a major financial crisis, not just in this country but abroad as well. So we are faced with that very unpleasant choice that says there are some banks that are so large and the failure of which would be so damaging to confidence in the banking system that you can't let it happen.

SHOULD OFFSHORE DEPOSITS BE INSURED?

The CHAIRMAN. Before I yield to Senator Graham, let me ask you one other question along this line. Should the offshore deposits of U.S. headquartered banks be insured and should the FDIC assess the insurance premiums on those deposits?

Mr. LAWARE. The offshore deposits of U.S. banks?

The CHAIRMAN. Yes, sir. The offshore deposits of U.S. headquartered banks.

Mr. LAWARE. No, I don't think so.

The CHAIRMAN. Thank you, sir.

Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

I would like to return to the question that I was asking before relative to the effect of risk-based capital standards on developing nations.

As I understand, the risk-based capital will require a percentage of reserves based on the riskiness of the loans and that for lesser developed nation loans that that reserve for a scheduled list of countries or characteristics of countries is 100 percent reserve requirement.

If that is an accurate statement of what the proposal is, it seems to me that that would be a significant disincentive for commercial institutions making the fresh money lending which is a predicate to restarting the economies and placing these countries in a position to meet their domestic and foreign financial obligations.

Mr. LAWARE. Senator, I think there's a little bit of misunderstanding there. I don't think that the regulators are saying that all of these lesser developed country loans require 100 percent re-

serves. What they are saying is that reserves that are specifically allocated to a specific country debt or a specific group of countries' debt cannot be counted as primary capital. And that's what I was getting at before you left to go vote in saying that some of my colleagues interpret that as a disincentive for reserving against those loans at all since you move it out of that calculation of primary capital.

On the other hand, there is no requirement that that reserving go to 100 percent of the value of the loan. It's just that portion of the reserve that is specifically allocated for a specific loan cannot be counted as part of the primary capital.

So I don't think that is a sufficient disincentive at this stage of the game to slow down the process of trying to do something about restructuring these debts and getting some fresh capital into those countries.

Senator GRAHAM. Would it be fair to conclude from that statement that you do not feel that any change in policy of the Treasury or the Federal Reserve relative to the economic circumstances of these debtor nations is required as a consequence of the adoption of the risk-based capital system?

Mr. LAWARE. There have been several proposals. There have been proposals for forgiveness of some portion of those debts. There have been proposals for some sort of facility to be established with public funds to buy up some of that debt. I am very violently opposed to a taxpayer bailout, and when you start using public funds for that purpose, that's what you've got.

I am confident that based on the progress that we've made over the last 4 or 5 years that if we can continue along this line, we can get this situation under control using the private sector and negotiation and get those capital flows going again and those interbank deposits being made again so that these countries can service their debt.

But some alleviation of terms is going to be implicit in that solution, probably with regard to interest rates and probably with regard to maturities of principal, so that they have some breathing room and can get the ignition going.

Senator GRAHAM. Based on the experience that we are now living through with loans that were largely made in the 1970's and early 1980's where I gather the position of the Federal Reserve was essentially a hands-off position, do you believe that there are any additional Federal Reserve initiated lending standards that should be applied to U.S. commercial banks based on this experience with the goal of not repeating it?

And I would give as a specific example the difference between Argentina and Brazil where in Brazil there appears to have been a high percentage of lending that went to tangible projects that had an economically advantageous relationship to the country and the ability of the country to repay the loan, whereas in Argentina much of the money allegedly went into noneconomically productive purposes.

Using those two countries as an example, do they indicate the need for any Federal Reserve regulatory policy relative to foreign lending so as to mitigate the prospects of a recurrence of what we're now living through?

Mr. LAWARE. Well, for the Federal Reserve or any other regulator to try to establish credit standards for banks in their lending policies would be a complete departure from any historic precedent that I'm aware of.

There are to my knowledge no lending standards that are imposed by regulators and I think it would be a mistake to do that.

BANKS LENDING TO FOREIGN COUNTRIES ARE ALERTED TO PITFALLS

I would submit that if you have touched the stove and gotten burned that you stay very far away from the stove for a while, and I would guess that banks entering into foreign lending have been alerted to some of the pitfalls and are going to be a lot more cautious in the future on just where the money goes and whether the proper sequence for proper repayment and service of that debt is there.

Just as a digression if I can take a couple minutes, the history of our lending in Latin America particularly, but to all the developing countries, is a very interesting one. It arose as a result of the huge pool of what we called at the time petrodollars that came out of the repricing of petroleum in 1973, and this money was growing in the hands of the OPEC countries, huge pools of it, all in dollars because the oil sales were all denominated in dollars. It even got to the point where the Swiss were charging a negative rate of interest to keep the money for the petroleum countries and they had to do something with it and everybody said, well, the private banking system ought to help in recirculating or reallocating those funds.

So the banks said, OK, we think that's a great idea, and the deposits began to come into the United States, French, British, Japanese banks, for the purpose of being recycled.

Now they came in on 90 and 180 day certificates of deposits. So they turned around and said, well, where are we going to lend this money? Well, we're going to lend it to Mexico and Argentina and Brazil and various countries in Africa and what is the purpose going to be? Well, it's going to be project planning. We're going to build a subway in Mexico City and steel mills in Brazil and so forth.

Now that's the kind of lending that you would ordinarily do on 25 or 30 year terms, but if your source of funding for those loans is 90 days, you're really stretching it to put it on 3 year terms and the project wouldn't be even finished before it would be maturing.

Well, for a number of years those were just rolled over. When the maturities came, the terms were reset and the loan was rolled over.

When political problems arose in Mexico in 1982 and the banks began to lose confidence in the political situation there and withdrew interbank deposits, the Mexicans didn't have the dollars to service the debt, and it had a domino effect. They said, OK, if that can happen in Mexico, can it happen in Brazil and Argentina? So the whole thing collapsed. So there were lots of mistakes made.

We were forced to lend short because our supplies of money were short, and we probably didn't exercise the diligence over where the money went that we should have. I don't think those mistakes can be made again.

Senator GRAHAM. I basically agree with the premise of your answer that lending practices should be a marketplace judgment made by the lending institutions, in this case commercial banks. I do believe that when you start to work across national boundaries that some of Adam Smith's economics have to take on a different flavor for some of the exact examples that you just cited in what happens, and I would suggest that the risk-based capital proposal is itself a statement that there needs to be some standards in lending in the international community.

The consequences of some of the activities that you described are not just being felt by the commercial banks. Our trade deficit is to a substantial degree, maybe as much as 30 percent, a function of the falloff of our ability to export into these countries, particularly in Latin America which used to be some of our major trading partners and their inability to purchase our goods as a function of their internal economic problems which are significantly a function of their external debt.

So it is not across national borders just a matter of marketplace economics and I think that it would be in the national interest if the Federal Reserve Board were to give some thought to what its role should be based on recent experience looking to the future where global economics are likely to be a greater not a lesser part of our total national economic well-being.

Mr. LAWARE. I'm sure we will be looking at that very carefully.

Senator GRAHAM. Thank you, Mr. Chairman.

The Chairman. Mr. LaWare, I'd like to take you back to your beginning in Columbus, WI. When you came out of Columbus, WI, you went to Harvard University. That's very unusual. We've got a good university in Wisconsin, as you know, but I made the same mistake.

Mr. LAWARE. My wife went to the University of Wisconsin.

The CHAIRMAN. Well, that's great. And the fact that you were born in Columbus, of course, is very—I had a business in Waterloo, WI, which isn't very far away, as you know.

The reason I'm getting on this beat is because you finished your education and then you had 2 years in which you were a pilot—or you were in the Air Force in the Korean war.

Mr. LAWARE. They wouldn't let me near an airplane with my eyes.

The CHAIRMAN. But you were in the Air Force. You served your country in the Air Force. Then you went to work at the Chemical Bank in New York, one of the great money center banks in the country, and you rose very rapidly and you became a top official in that bank. I guess an executive vice president or something like that.

Mr. LAWARE. Senior vice president.

The CHAIRMAN. Before you went to Shawmut.

Mr. LAWARE. Yes, sir.

The CHAIRMAN. Now I hope that as a Governor of the Federal Reserve Board you will not lose your very important underpinnings in Columbus, WI. I say that because I had an experience—I had a business in Waterloo and we had a local banker there who was terrific. He made all the difference. We were a profitable business. We grew. We did very well. He helped us with our cost accounting

system. He helped us with our purchasing. He gave us excellent advice—not credit—that was important, but more important was the advice he gave us.

And I think this is one of the reasons why you have a situation where in the last 10 years we had an increase of about 10 million in jobs, all of which has occurred in small business. Big businesses, the Fortune 500, have actually reduced their employment. So the great growth in this country and so much of the innovation and so forth has come from small business and small banks that not only provide credit but provide something more important, which is excellent financial advice and makes a big difference.

The reason I go into that is because I notice in your letter in the New York Times and of course in your associations there may be tendency for you, as the guru of the Federal Reserve Board in the future on banking, to favor bank concentration, banks moving in and growing through huge branches, and neglect of community banking. And I think the great genius of our economic system to a considerable extent is the fact that we have 14,000 independent banks and no other country has anything like it. Our biggest banks only do about 30 percent of the business. It's big, and as you have already said, they compete effectively abroad, but I just don't want to see that marvelous base of community banks in places like Columbus, Waterloo and thousands of other small towns in our country eroded by banks moving in because once a bank becomes part of a big holding company, there may be some kinds of efficiencies, but there are great losses because you just don't have the same kind of commitment to the local community that you have if you have a banker who lives there, who's part of the community.

That Waterloo bank, for instance, is owned by 103 people, all of which live in the Waterloo area, none of whom live more than 20 miles away. How about that?

Mr. LAWARE. I couldn't agree with you more. As a matter of fact, I'm not so concerned about the danger of big banks as I am delighted with the fact that we are chartering more new banks all the time.

The CHAIRMAN. Well, that's very important, keeping up that charter business.

Mr. LAWARE. Absolutely. If I can take a moment to reminisce a little bit. When the bank holiday came in 1933, one of the two banks in Columbus reopened almost immediately because their loan portfolio was mostly government bonds and things backed by excellent collateral.

NO INSURANCE

The other bank, which was very much dedicated to the community and had the bulk of the loans to the farmers and the local businessmen, didn't reopen. And a group of local businessmen who had not lost everything in the crash stepped forward and said, we will recapitalize the bank and get it reopened and we will pay off the depositors who lost in this process because there was no deposit insurance in those days; over time we will give you all notes for whatever. My father had a balance of perhaps $200 or $300 in that bank that failed and he got the final check from that group who

took it over in 1946, 13 years later. But that's the kind of community identification and dedication that you're talking about and I think it's wonderful.

In Massachusetts where we have had a lot of consolidation recently, I think we have chartered over the past 18 months about 12 new banks, and it is the perception that from a competitive point of view that the small, dedicated, locally identified, high quality service bank can compete with the big guy and run circles around him. The highest performing bank we have in Massachusetts is one down on the Cape that's a couple hundred million dollars in size and just does a super job and they earn almost 2 percent return on assets, which is phenomenal.

The CHAIRMAN. That's very reassuring.

Mr. LAWARE. I'm with you, Mr. Chairman.

The CHAIRMAN. What are your views on the question of the desirability of separation of banking and commerce? They're moving, as you know, very much in the direction of—especially big aggressive corporations have been trying to get into S&L's and trying to get into banking.

Mr. LAWARE. That worries me. I don't think we understand yet well enough what the implications of that would be to move in that direction at this point. I would be in favor of keeping the barriers between banking and commerce until we know more about it. I think it's going to be one of the issues, I agree.

PAYING INTEREST ON RESERVES

The CHAIRMAN. Former FDIC Chairman Isaacs has proposed a restructuring of the Federal Deposit Insurance System which would use funds from the Federal Reserve's interest earnings on its open market portfolio to pay for the recapitalization of the Savings and Loan Insurance Fund, provided the banks at a later date would receive interest on reserves.

Do you believe it is advisable to pay back interest on their reserves?

Mr. LAWARE. Well, the lack of payment of interest on reserves is really a hidden tax on the banking system.

The CHAIRMAN. Well, they ought to pay some tax. They don't pay very much really.

Mr. LAWARE. We pay our tax.

You know that the banks in Massachusetts are the highest taxed by the State of any State in the United States? And it's a——

The CHAIRMAN. Well, you don't pay very much really in Federal income taxes. They pay about as much as they feel they should from a PR standpoint.

Mr. LAWARE. I won't accept that for my bank. If you'll look at the record, I think you will find we pay our taxes, our fair share.

The CHAIRMAN. So does your answer mean that you think that it would be advisable to pay banks interest on their reserves?

Mr. LAWARE. No, I didn't mean to make a blanket statement like that either. It is a question of where you want to allocate the tax burden. If you pay banks interest on their reserves, then there's going to be less money turned over the Treasury by the

Federal Reserve System, and they'll have to pick up that shortfall in revenue someplace.

The CHAIRMAN. Well, do you favor using the resources of the Federal Reserve System to bail out the savings and loan industry?

Mr. LAWARE. No, sir.

The CHAIRMAN. You're opposed to that?

Mr. LAWARE. Yes, sir.

The CHAIRMAN. Why?

Mr. LAWARE. Well, the Federal Reserve has to lend against acceptable collateral, and the standards for that collateral are well spelled out, and I'm not sure there's that kind of collateral available in the S&L industry.

The CHAIRMAN. Yes, but we have a terrific problem. We had hearings before this committee, and the latest estimates, even after the hearings, were that the bailout is going to have to come, it's inevitable, and that it will be between $25 billion and $75 billion.

Where should the money come from?

Mr. LAWARE. I wish I had a quick answer to that one.

The CHAIRMAN. You're saying it should not come from the Federal Reserve, however.

Mr. LAWARE. That's correct.

The CHAIRMAN. Well, if it doesn't come from there, do we appropriate $25 billion to $75 billion and then just run up the debt that much or increase taxes?

Mr. LAWARE. Either that or provide some other way that the FSLIC can fund itself. That is, either perhaps guarantees the borrowing——

The CHAIRMAN. We've gone awfully far down that road already, as you know.

Mr. LAWARE. I understand, sir.

The CHAIRMAN. Would we impose now a premium of one-eighth on top of the one-twelfth—in addition to the one-twelfth that they have to pay on their deposits, terrifically burdensome for the S&L's, the healthy S&L's?

Mr. LAWARE. There is a variety of solutions or partial solutions that have been proposed like risk-related premiums, but that's almost counterproductive because the ones that are in trouble are the ones least able to pay more. So that doesn't sound right.

The CHAIRMAN. Well, shouldn't we promptly insist that any new insurance of deposits can only go to an institution which complies with Federal restrictions on investment? You see, we have a situation where California and Texas, particularly, have very loose restrictions. In Texas, I understand, the S&L's can even get into equities. They can get into all kinds of real estate ventures, and so forth. And the risks are very high. And at the same time, 95 percent of their liabilities are insured.

Mr. LAWARE. One of the fallouts of the dual banking system is that you have these banks that are chartered by and operate in individual States and the States feel that they have the right to regulate to some extent what the banks in that State can do.

The CHAIRMAN. Well, let the State insure them.

Mr. LAWARE. I think that we may be headed toward the point that in order to be eligible for Federal insurance, that you have to have some level of compliance with Federal standards.

The CHAIRMAN. And hadn't we better very rapidly, because this is getting worse by the moment?

Mr. LAWARE. I would not be in favor of the dissolution of the dual banking system.

The CHAIRMAN. Well, neither would I, but it would just seem to me that if we are going to provide deposit insurance, we ought to just insist on investment standards that otherwise we are just going to be constantly bled. The estimate now is we are losing $13 billion a year, based on the losses in the first quarter for S&L's. That is $1 billion a month.

Mr. LAWARE. As Senator Dirksen said, that begins to sound like real money.

The CHAIRMAN. Right.

United States current account deficits for 1988 are likely to be well over $130 billion. At the same time, many experts are suggesting we stabilize the dollar at current levels. The dollar has even risen in recent days.

How will the United States and the rest of the world adjust to eliminate or at least drastically reduce the U.S. trade imbalance, if the dollar does not decline any further?

Mr. LAWARE. Well, the other part of that, of course, is the inflationary pressure. If the dollar goes down significantly more and that creates a further demand on our ability to produce when we're already operating at 83 percent of capacity, I think you'd have severe inflationary pressures.

The CHAIRMAN. Yes, but that wasn't my question. The question is, what if the dollar goes back up again?

Mr. LAWARE. I think that we have to be alert to not having it go up so high that it reverses the favorable trend in our trade balance that has come about, at least partially, because of the decline.

The CHAIRMAN. So we have to proceed on kind of a knife's edge there.

Mr. LAWARE. Yes, sir. And the stability of the dollar is probably the best answer.

THE BAKER PLAN

The CHAIRMAN. Now the Baker plan for developing country debt has three parts. First, the adjustment in the debtor countries. Second, injections of multilateral financial capital, and third, and this is what I want to ask you about, new lending by banks. And that third part doesn't appear to have been forthcoming.

You've had very impressive experience as a banker. Would you please explain why banks have been reluctant to adhere to their portion of the Baker plan?

Mr. LAWARE. I think the big banks have generally gone along with it. They have the biggest stake, obviously, and they have the most sophisticated understanding of the problem and the realization that fresh money inevitably has to go in there. The smaller participants, some of the regional banks and some of the local banks who got in through participations and syndications, are bewildered by the fact that they are being compelled to throw what they consider good money after bad.

So there has been a considerable amount of resistance from smaller banks and regional banks to those calls for additional funds. Those are the banks that tend to be, as I outlined in answer to an earlier question, the ones who are trying to get out of those loans now, and they are the ones that have taken the big reserve hits, and they are trying to manage those portfolios down.

The bigger fellows believe that this money will all be collected in the final analysis, and they have been more willing to make the additional investment to give these countries the turning around time that they need.

It is hard to fault either strategy, and I think it is just going to be inevitable that everybody isn't going in lockstep.

The CHAIRMAN. Mr. LaWare, you are a very, very impressive candidate for the Federal Reserve Board. You are the first person I've seen in the 30 years I have been on this committee who has made more than, as I count them, at least 75 separate contributions to political candidates for office. I made my first contribution to a candidate for office just this last week, the first one I've made in 30 years—it wasn't made to myself.

Maybe you can give us some help. You are obviously a fine citizen and a very honest person. Do you think that our system of raising thousands of dollars from people who have some interest in legislation needs to be reformed effectively, and do you have any recommendations on how we should do it?

Mr. LAWARE. I think it is very unfortunate, Senator.

The CHAIRMAN. You think it is very unfortunate. Coming from you, that's very interesting, because you are a realist, and you recognize that's the way the game is played.

Mr. LAWARE. That is why you read 75 or 80 different contributions there over a period of 8 or 9 years. That's the way the system works. Those contributions, by the way, are not made in connection with specific pieces of legislation but rather with concern for having qualified people in office, and you will note that they are not all for one party or the other.

The CHAIRMAN. Well, they're mostly Democrats, which speaks well for your judgment. [Laughter.]

Mr. LAWARE. And my registration, sir.

The CHAIRMAN. But you think that is the motivation of most contributors?

Mr. LAWARE. No. No, I really don't. Obviously, political action committees and organizations like that distribute campaign funds in their own self-interest. That is the way the system has evolved and that seems to be the way it works. That doesn't mean any of us have to like it, and least of all, probably the candidates who have to raise the money to run these expensive campaigns.

You are a notable exception to that at any level of government that I am aware of and to be congratulated, but most candidates don't have the impeccable record that you have that enables you to get reelected without spending money.

The CHAIRMAN. Well, you know, I am absolutely convinced that at least two-thirds of the Members of the Senate could run for reelection without spending a nickel, and they would win. The advantages of incumbency are colossal. You have a million a year for your staff; you have another million bucks to send out newsletters

to your constituents. You have almost unlimited access to the media, which your opponent doesn't have. You have a record of having run. People, once they vote for you, they're likely to do it again, just out of habit, if nothing else. You have colossal advantages.

And then in addition to that, you come up with twice—as most incumbents do, twice as much money as your opponent. It is almost having the tenure of a college professor. You're in for good.

Let me just ask two more questions, sir. I know I've kept you a long time, but these are, I think, important.

Mr. LAWARE. I'm having fun. [Laughter.]

MERGER MANIA

The CHAIRMAN. First, the merger mania. Merger mania is swamping America, an unprecedented debt. Most of this debt is in the form of immediate and long-term debt. Hostile takeover financing begins with short-term bank loans.

What is your view of this debt problem? What can the Fed do to address it, and do you favor more activist enforcement of the margin rules?

Mr. LAWARE. Well, I'm worried about a lot of the huge debts that are taken on by these companies, in terms of takeovers and in terms of some of the leveraged buyouts. I don't think that you can condemn takeovers or you can condemn leveraged buyouts simply because some of them are extreme. What happens, typically, in one of these high-cost debt-financed takeovers of one firm by another is the debt level resulting after the consolidation is so heavy that they start dismembering the company that they fought to buy in order to pay it down.

The CHAIRMAN. That's exactly what concerns me.

Mr. LAWARE. And what worries me is that——

The CHAIRMAN. Win or lose. Even when people go in and they lose it, the people who prevail, the management that prevails has gotten in debt to do it. They borrow money, buy the corporate stock, bid up the price of the stock and win that way.

Mr. LAWARE. Or the company that defended has to justify to its shareholders the reason for turning down or defending against an offer which may have sounded pretty good to the shareholders, and so they have to go out and create a special dividend or a liquidation of something to give the shareholders some advantage. So I am not sure that in the long run whether that serves management goals very well. But the thing that worries me as a banker is that if they are very thinly structured, in other words, the leverage is too high, and if we go into a period where we have a downturn, then the ability to service that debt may not be there.

The CHAIRMAN. Extremely vulnerable, not only that, but they have a mandate to put that money into paying interest instead of research and development, instead of manpower training, instead of all the things that will make them more competitive. Investment in better equipment and so forth.

Mr. LAWARE. It is certainly not productive.

SUIT AGAINST SHAWMUT REGARDING ATM'S

The CHAIRMAN. One other question. In December 1986 Bay Banks charged Shawmut and four other New England banks with an antitrust complaint regarding automatic teller machines.

In its suit Bay Banks charged that its competitors sought to restrain trade, to monopolize the market for automated teller services in Massachusetts and to employ unfair methods of competition, unquote.

As one example Bay Banks pointed to a fee that Shawmut was planning to charge its customers when they used other ATM's. The fee was going to be a hefty 8 percent of the transaction fee. This plan has been dropped and the suit has been settled.

Nevertheless, Mr. LaWare, these proposals suggest exactly what Bay Banks charged.

Can you expand on Shawmut's defense in this suit?

Mr. LAWARE. We thought the suit had no merit. What we had done in conjunction with banks in Connecticut and other banks in Massachusetts and New Hampshire was to form an ATM network where the cardholders from any of the banks that were members of the association could use the ATM's of any other member. Bay Banks was invited to join this process, but they felt that they were at a disadvantage, if they joined, that they would be giving up more than they would be getting from membership, because they had the largest proprietary array of ATM's in New England, and that the holders of other banks would be using their ATM's, and they wouldn't be getting properly compensated for it.

They tried to, in our opinion, sir, slow down the process of the formation of this new network by bringing this suit. The suit was settled, they withdrew the complaint, and I think that's all ancient history. I don't think that—certainly, our lawyers felt there was no merit in the antitrust accusations.

The CHAIRMAN. If there was no merit, why did they drop the suit?

Mr. LAWARE. Probably they realized there wasn't any merit to it either.

The CHAIRMAN. Why did they drop the fee? Why did Shawmut drop the fee?

Mr. LAWARE. We decided that if the fee created such a problem that others might stay out of the network as well, then it was counterproductive, because the whole idea is to create the same kind of environment that we have now for credit cards. You can use your credit card anywhere with any bank's merchant, and we wanted our cardholders with debit cards to be able to use an ATM that belonged to any bank, so that they could provide the consumer with the convenience of that kind of service. And if the fee was going to be counterproductive to that and keep banks from joining and making their ATM's available, then give it up.

The CHAIRMAN. Thank you, sir. Thank you very much.

Mr. LAWARE. Thank you, Mr. Chairman.

The CHAIRMAN. The committee will stand in recess.

[Whereupon at 12:30 p.m., the hearing was adjourned.]

[Additional material supplied for the record follows:]

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: LaWare (LAST) John (FIRST) Patrick (OTHER)

Position to which nominated: Governor, Federal Reserve Board Date of nomination:

Date of birth: 20 (DAY) 02 (MONTH) 28 (YEAR) Place of birth: Columbus, Wisconsin, U.S.A.

Marital status: Married Full name of spouse: Margery Ann Ninabuck LaWare

Name and ages of children: John Kevin 31
Margaret Ann 29

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Harvard University	1946-1950	B.A.	1950
University of PA	1950-1951	M.A.	1951
New York University	1954-1956		
Harvard Business School Advanced Management Program	2/75-5/75	Certificate	'75

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Honorary Doctor Humane Letters, Suffolk University

Minuteman Council B.S.A., Distinguished Citizen

Northeastern University, College of Business, CEO of the Year

B'nai Brith-Antidefamation League, Outstanding Citizen

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
SEE ATTACHED LIST		

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

1. U.S. Air Force, July, 1951-August, 1953, 2nd Lt.
2. Chemical Bank, New York, October, 1953-October, 1978
   Started in training program; became Loan Officer; rose to Senior Vice President in charge of Holding Company operations.
3. Shawmut Corporation, Boston, MA (Bank Holding Company)
   Joined in 1978 as President and Director.
   Chairman and C.E.O. 1980-Present.
4. Shawmut National Corporation, Boston, MA and Hartford, CT (Bank Holding Company)
   Chairman since February 1988 (date that operations commenced)

MEMBERSHIPS AND OFFICES HELD

Shawmut National Corporation, Boston, MA and Hartford, CT		
Bank Holding Co.	Chairman	2/1988 to present
Shawmut Corporation, Boston, MA		
Bank Holding Co.	President	10/1978 to 6/1980
	Chairman	6/1980 to present
Shawmut Bank, N.A., Boston, MA		
Commercial Bank	President	10/1978 to 6/1980
	Chairman	6/1980 to present
Shawmut Credit Corporation, Boston, MA		
Commercial Finance	Director	10/1978 to present
Shawmut Securities Clearance Corporation (activities transferred to Hartford Trust Company, New York)		
Trust Company Activities (inactive)		
	Director	10/1978 to present
	Chairman	6/1980 to present
Shawmut Financial Corporation, Boston, MA		
Sale of Commercial Paper (inactive)		
	Director	10/1978 to present
Securities Compudata, Inc., Boston, MA		
Inactive Company	Director	1/1979 to present
	Chairman	6/1980 to present
Shawmut Association Incorporated (NewPar), Boston, MA		
Inactive	Director	10/1978 to present
	President	10/1978 to 1980
	Chairman	6/1980 to present
Shawmut Boston International Banking Corporation (formerly Shawmut International Corporation), Miami, Florida		
Edge Act Corporation	Director	11/1978 to present
	Chairman	6/1980 to present
American AgCredit Corporation, Fort Worth, Texas		
Agricultural Finance (inactive)		
	Director	3/1980 to 11/1985
Atlantic International Bank Limited, London, England		
England Offshore Bank	Alternate Director	11/1978 to 11/1980
	Director	11/1980 to present
	Deputy Chairman	6/1983 to 9/1985
Devonshire Financial Service Corporation, Boston, MA		
Special-purpose Financial Company (inactive)		
	Director	11/1978 to present
	President	11/1978 to present
	C.E.O.	11/1978 to present
	Chairman	6/1984 to present
Atlantic Capital Limited, Hong Kong		
Offshore Deposit-taking Company		
	Director	8/1980 to present
Liberty Mutual Insurance Co., Boston, MA		
Casualty Insurance	Director	5/1980 to present
Liberty Mutual Fire Insurance Co., Boston, MA		
Casualty Insurance	Director	5/1982 to present

Memberships and Offices Held (continued)

Travelers Real Estate Investment Trust, Boston, MA		
Real Estate Investment Trust		
	Trustee	2/1984 to 1986
Travelers Realty Income Investors, Boston, MA		
Real Estate Investment Trust		
	Trustee	6/1985 to 1986
The Equitable Life Mortgage and Realty Investors, Boston, MA		
Real Estate Investment Trust		
	Trustee	1980-1982
Association of Bank Holding Companies, Washington, D.C.		
Trade Assn.	Chairman	5/1986 to 5/1987
	Director	1984 to present
United Way Of Massachusetts Bay, Boston, MA		
Charitable	Chairman	1/1985 to 1/1987
	Director	1984 to present
Jobs for Massachusetts, Boston, MA		
Public Service	Director	1980 to present
Massachusetts Business Roundtable, Boston, MA		
Public Service	Chairman	5/1985 to 9/1986
	Director	1980 to present
Boston Aquarium, Boston, MA		
Aquarium	Trustee	4/1981 to present
Boston Children's Hospital, Boston, MA		
Hospital	Vice Chairman	12/1983 to present
	Trustee	1980 to present
Northeastern University, Boston, MA		
Education	Vice Chairman	5/1985 to present
	Member, Finance Committee	11/1981 to 11/1985
	Chairman, Finance Committee	11/1985 to present
Mount Holyoke College, South Hadley, MA		
Education	Trustee	11/1983 to present
Harvard Club of Boston, Boston, MA		
Social Club	Governor	3/1986 to 3/1987
Interbank Card Association, New York City		
Credit Card Assn.	Director	1968-1972
Eastern States Bankcard Association, New York City		
Credit Card Service Organization		
	Director	1968-1972
American Bankers Association, Washington, D.C.		
Trade Association	Committee Member	1960 to present
Association of Reserve City Bankers, Washington, D.C.		
Trade Association	Committee Member	1979 to present
Bank Marketing Association, Washington, D.C.		
Professional Assn.	Member	1965-1978

Memberships and Offices Held (continued)

Massachusetts Bankers Association, Boston, MA		
Trade Association	Past Chairman	1978 to present
Coordinating Committee, Boston, MA		
Public Service	Past Chairman	1980 to present
Massachusetts Business Roundtable, Boston, MA		
Public Service	Past Chairman	1980 to present
Boston Museum of Science, Boston, MA		
Museum	Corporator	1980 to present
Boston Symphony Orchestra, Boston, MA		
Orchestra	Overseer	1980 to present
Harvard Business School, Alston, MA		
Education	Board of Associates	1984 to present
International Financial Conference, Washington, D.C.		
Public Policy Discussion Forum		
	Member	1982 to present
Special Commission on Bird Island Flats, Boston, MA		
Public Usage	Committee Member	1981
Master Tax Commission for Commonwealth of Massachusetts		
Study of Tax Policy and Structure		
	Committee Member	1983 to present
Massachusetts Taxpayers Foundation, Boston, MA		
Nonprofit Watchdog Agency for State and Local Government		
	Director	1979 to 1982
Scarsdale Roundtable, Scarsdale, New York		
Discussion Group	Member	1945-1946
Federal Advisory Council of the Federal Reserve System,		
Washington, D.C.	Member	12/1986 to 12/1987
Federal Reserve Bank of Boston, Boston, MA		
	Director	1/1988 to present
Algonquin Club of Boston, Boston, MA		
Social Club	None	1979 to present
Somerset Club, Boston, MA		
Social Club	None	1984 to present
The Country Club, Brookline, MA		
Golf Club	None	1979 to present
Sea Island Golf Club, St. Simons Island, Georgia		
Golf Club	None	1987 to present
St. Simons Island Club, St. Simons Island, Georgia		
Golf Club	None	1987 to present
Scarsdale Golf Club, Scarsdale, New York		
Golf Club	None	1963 to present
Fox Meadow Tennis Club, Scarsdale, New York		
Racquet Club	None	1962 to present
Union Club, Cleveland, Ohio		
Social Club	Member	1976-1978

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Federal Advisory Council of the Federal Reserve System (member)

Federal Reserve Bank of Boston (director).

Bird Island Flats Commission Boston, MA (member).

Special Commission on Determination of Need Massachusetts (membe

Master Tax Commission for Commonwealth of Massachusetts (member

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

A Viable Alternative for Failing Banks

O.P.ED. Page, New York Times, 22 June 1986

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Registered Democrat.

No offices held - no election activities.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

See List Attached.

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See Attached Sheet.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

None

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes

POLITICAL CONTRIBUTIONS:

07/18/79	Citizens Committee to Elect Finnegan (Mayoral Candidate)	$500.00
07/07/80	Massachusetts Bankers Association PAC	150.00
12/01/80	The Bulger Committee (Massachusetts Senate President)	250.00
06/01/81	Friends of Larry DiCara (Candidate in Mayoral Primary 1979)	100.00
07/29/81	Committee to Elect Barney Frank (Candidate for Congress)	50.00
09/25/81	Committee to Elect Ed King (Governor Candidate)	500.00
09/25/81	Committee to Elect John Brennan (State Senate Candidate)	100.00
09/29/81	The Bulger Committee (State Senate President)	100.00
10/26/81	Heckler Congressional Committee (Candidate for Congress)	400.00
04/14/82	Committee to Re-elect Timothy Basset (Candidate, State Legislature)	100.00
05/06/82	Committee to Retain William Q. MacLean (State Legislature)	200.00
05/06/82	Friends of Ed King (Candidate for Governor)	300.00
06/30/82	Heckler Committee (Candidate for Congress)	300.00
10/13/82	Barney Frank for Congress (Fund-raiser Dinner)	500.00
10/15/82	Sears for Governor Committee (Candidate for Governor, Massachusetts)	500.00
10/21/82	Committee to Re-elect Thomas P. O'Neill (Candidate for Congress)	150.00
10/21/82	Committee to Re-elect George Keverian (Candidate for State House of Representatives)	100.00
01/07/83	The Bulger Committee (Massachusetts Senate President)	200.00
02/01/83	The Bulger Committee	200.00
05/02/83	Barney Frank for Congress Committee (U. S. Congressman, Massachusetts)	250.00
05/17/83	Tsongas for the Senate (U. S. Senator from Massachusetts)	500.00
05/18/83	Terry McDermott Committee (State Legislator)	150.00
06/15/83	Markey for Congress Committee (U. S. Congressman, Massachusetts)	200.00
08/16/83	Committee to Re-elect Kevin Fitzgerald (State Legislator, Massachusetts)	100.00
11/10/83	Friends of Good Government (Boston Coordinating Committee PAC)	500.00
12/26/83	Committee to Elect Ray Flynn Mayor (Candidate for Mayor of Boston)	100.00

POLITICAL CONTRIBUTIONS (Continued)
Page Two

03/06/84	Committee to Elect Mel King (Candidate for Mayor - pay off debt)	$ 200.00
03/07/84	The Larry DiCara Committee (Former Mayoral Candidate)	200.00
04/19/84	D'Amours for Senate Committee (Candidate for Senate, New Hampshire)	250.00
04/20/84	Massachusetts Bankers Assn. PAC	100.00
05/24/84	Committee to Re-elect Thomas W. McGee (Massachusetts Legislator)	100.00
07/02/84	Wick for Governor (Candidate for Governor of Vermont)	100.00
07/02/84	Barney Frank for Congress (Candidate for Relection)	100.00
07/11/84	Atkins for Congress Committee (Candidate for Congress)	500.00
07/27/84	Massachusetts Bankers Assn. PAC	150.00
08/08/84	Tsongas Committee (Senator)	500.00
09/18/84	Committee to Elect Andrew J. Rogers	100.00
10/12/84	Re-elect Nancy Johnson (Connecticut Candidate for Congress)	150.00
10/18/84	Ray Shamie for U. S. Senate (Candidate for U. S. Senate)	500.00
11/15/84	Friends of Paul Kirk (Chairman of Democratic Party. Not sure it constitutes political contribution)	1,000.00
12/28/84	The Governor's Inaugural (Sununu, New Hampshire)	150.00
Fall/ 85	Contribution to David Dinkins (Candidate for Manhattan Borough Presidency)	250.00
03/01/85	The Bulger Committee (State Senate President)	100.00
03/27/85	Rep. Thomas Finneran Committee (State Legislator)	100.00
05/03/85	Committee for State Senator John W. Olver (State Senator)	100.00
06/03/85	Senator Slade Gorton Campaign (U. S. Senator, State of Washington)	500.00
06/20/85	Shawmut Citizens Action Group PAC	500.00
08/13/85	Re-elect Nancy Johnson to Congress (Connecticut Congresswoman)	200.00
09/11/85	Committee to Elect Raymond L. Flynn (Mayor of Boston)	200.00
10/31/85	Friends of Good Government (Boston Coordinating Committee PAC)	1,000.00
03/18/85	Association of Bank Holding Companies PAC	1,000.00

POLITICAL CONTRIBUTIONS (Continued)
Page Three

01/24/86	The Bulger Committee (Massachusetts State Senate President)	$ 250.00
01/30/86	Association of Bank Holding Companies PAC	1,500.00
01/31/86	The Sununu Committee	150.00
03/11/86	Barney Frank for Congress (Candidate for Congress)	500.00
04/04/86	Represenatative Thomas Finneran Committee (State Legislator)	100.00
04/15/86	Committee to Retain William O. MacLean Jr. (State Legislator)	100.00
05/12/86	Raymond L. Flynn Committee (Mayor of Boston)	100.00
05/16/86	Fund for America's Future (George Bush)	250.00
06/13/86	Rudman for the Senate Committee (Senator, New Hampshire)	150.00
07/18/86	The Doug Barnard Campaign (U. S. Congressman, Georgia)	500.00
08/21/86	The D'Amico Committee (State Legislator, Massachusetts)	200.00
08/25/86	Re-elect Congresswoman Nancy Johnson (Connecticut Congresswoman)	100.00
08/27/86	Friends of Good Government (Boston Coordinating Committee PAC)	250.00
10/14/86	The Olver Committee (Massachusetts State Senator)	100.00
10/16/86	Jim Shannon State Committee (Candidate for Attorney General)	200.00
10/22/86	Committee to Re-elect Governor Sununu (Governor of New Hampshire)	250.00
01/12/87	The Bulger Committee (Massachusetts Senate Presidency)	100.00
02/17/87	Association of Bank Holding Companies PAC	1,500.00
03/06/87	The Thomas Finneran Committee (Massachusetts State Legislator)	100.00
04/03/87	Dukakis for President Committee	1,000.00
04/09/87	The Blanchette Campaign Committee (Massachusetts State Legislator)	100.00
05/15/87	Raymond L. Flynn Committee (Boston Mayor)	100.00
06/10/87	John Burke Committee (State Legislator)	100.00
06/23/87	Ed Markey for Congress (U. S. Congressman, Massachusetts)	125.00
10/21/87	The Sununu Committee (Governor of New Hampshire)	150.00
03/08/88	Committee to Re-elect Robert Q. Crane (Massachusetts State Treasurer)	125.00

QUALIFICATIONS

I have been a banker for thirty-four years, with extensive experience in consumer, commercial, real estate and international lending, asset and liability management, mergers and acquisitions, consumer affairs, and community, government and regulatory relations. During a significant portion of my career, I have had senior executive responsibility for bank and bank holding company operations, including subsidiary management, general management at the chief operating officer level, and strategic planning and development.

During the period from 1980 to 1988, I served as chairman and chief executive officer of a major regional financial institution and have been actively involved from a private perspective in the public policy issues affecting banks and bank holding companies. As a member of the Federal Advisory Council of the Federal Reserve System (since 1986) and the Board of Directors of the Federal Reserve Bank of Boston (since January of 1988), I have had the opportunity to consider these same public policy issues from the perspective of the Federal Reserve System.

I believe all of this experience is relevant to the various roles of the Board of Governors of the Federal

Reserve System in its activities relating to monetary policy and regulation. An intimate understanding of the structure and operation of the banking system should be a valuable contribution to the Board in the years ahead, at a time when the banking system may be under significant pressure.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

Shawmut Stock

Chemical Stock (held by Wife)

Chittenden Bank Stock

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

Because of my present position as Chairman of Shawmut National Corporation, a bank holding company that is regulated by the Federal Reserve Board, a question might arise regarding a conflict of interest due to my financial interest in Shawmut National Corporation or an appearance of conflict due to my past association with Shawmut.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

See Attached List

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

See Attached Sheet

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None. Information regarding investigations of Shawmut Bank, N.A. and Chemical Bank, but in which I was neither a defendant nor a subject is attached for the information of the Committee.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

TESTIMONY

In 1970, I appeared before the House Post Office Committee on behalf of the American Bankers Association regarding credit card legislation.

In 1986, I appeared before the House Banking Committee on behalf of the Association of Bank Holding Companies regarding the financial services holding company concept.

In 1986, I appeared before the Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations on behalf of the Association of Bank Holding Companies regarding proposals for restructuring the financial services industry.

In 1987, I appeared before the Senate Banking Committee on behalf of the Association of Bank Holding Companies regarding proposals for restructuring the financial services industry.

In 1987, I appeared before the Subcommittee on International Economic Policy, Trade, Oceans & Environment of the Senate Committee on Foreign Affairs. I appeared at the request of the Subcommittee Chairman to present my

views as the Chairman of Shawmut Corporation on general issues relating to trade legislation.

During the past 10 years, in my capacity as a senior officer of Shawmut Corporation and Shawmut National Corporation, I have had periodic contacts with Senators, Congressmen and their staffs with respect to legislation affecting or potentially affecting the banking industry.

RESOLUTION OF POTENTIAL CONFLICTS OF INTEREST

Item 1

I will terminate all financial relationships with Shawmut National Corporation prior to assuming office. If permitted, I will retain supplemental health coverage available to retired Chemical Banking Corporation employees under a plan administered by Metropolitan Life Insurance Company.

Item 2

I will dispose of all stock listed under Item #2 prior to assuming office.

Item 3

To eliminate any potential conflicts of interest arising from my financial interests in Shawmut National Corporation, I will terminate all such interests prior to assuming office. To eliminate any potential appearance of conflict, I will recuse myself from any matter involving Shawmut for one year after taking office.

Item 4

I will terminate membership in organizations under Item #4 prior to assuming office.

CIVIL, CRIMINAL AND INVESTIGATORY ACTIONS

Chemical Bank, in about 1977, pled guilty to several misdemeanor charges in connection with a money laundering investigation of several branches. I had no responsibility for Chemical's branch operations during my employment with Chemical.

As a result of Shawmut Corporation's voluntary disclosure of failure to report certain cash transactions in excess of $10,000, Shawmut Bank, N.A. paid a civil settlement of approximately $295,000. Following the voluntary disclosure, the U.S. Attorney in Boston initiated a criminal investigation, but no charges were brought.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

MICHAEL BRADFIELD
GENERAL COUNSEL

July 6, 1988

The Honorable Frank Q. Nebeker
Director
Office of Government Ethics
P.O. Box 14108
Washington, D.C. 20044

Re: John Patrick LaWare

Dear Judge Nebeker:

In view of President Reagan's nomination of John Patrick LaWare to be a member of the Board of Governors of the Federal Reserve System and the requirements of 5 C.F.R. §734.604(c)(2)(iii), I have reviewed the finances, investments, and liabilities of Mr. LaWare and his wife, Margery LaWare, and the business and other affiliations of Mr. LaWare as reported in his official filing with this agency, in order to ascertain whether any facts or circumstances exist that could present a conflict of interest with the execution of Mr. LaWare's prospective official responsibilities as a Board member.

In conducting this inquiry, I have had discussions with Mr. LaWare, the Counsel to the President, staff members of the Senate Committee on Banking, Housing and Urban Affairs, your staff, and others. I have examined various documents required to be prepared and submitted by Mr. LaWare, all of which he has now submitted, including his SF 278 Financial Disclosure Report, filed with the Board and with your office pursuant to Title II of the Ethics in Government Act. This report sets forth Mr. LaWare's and his wife's investments, income, liabilities, outside affiliations and activities and other required information. A copy of Mr. LaWare's SF 278 financial disclosure report, certified by the Board's Ethics

Official, is enclosed with this letter (Enclosure No. 1). I have also reviewed materials submitted by counsel for Mr. LaWare regarding the proposed resolution of compensation and benefits due Mr. LaWare under his employment agreement with Shawmut National Corporation, Boston, Massachusetts ("SNC"), his current employer, and under various benefit plans of SNC and its subsidiary, Shawmut Corporation ("Shawmut"), and Mr. LaWare's former employer, Chemical Banking Corporation, New York, New York ("Chemical"), as well as other memoranda and documents submitted to this office by Mr. LaWare's counsel and the General Counsel and Secretary of SNC regarding these matters.

Mr. LaWare has also advised me by letter of certain actions that he has taken or will take in connection with his nomination, including the divestiture of all bank and bank holding company stock and certain other assets presently owned by Mr. LaWare and his wife, Mr. LaWare's resignation from positions with banking organizations, businesses and other organizations, recusals from certain matters that may come before the Board, and other arrangements. A copy of Mr. LaWare's letter is enclosed (Enclosure No. 2). Mr. LaWare has taken or will take all these actions to comply with the requirements of the Federal Reserve Act and other applicable authorities, including 12 U.S.C. §§241, 244 and 260, 18 U.S.C. §§208(a) and 209(a), and the Voluntary Guide to Conduct for Senior Officials of the Federal Reserve System.

Based upon the foregoing review, I have reached the following conclusions:

1. Ownership of Bank Stock

The Federal Reserve Act prohibits Board members from owning stock in a bank, banking institution, trust company (12 U.S.C. §244) or Edge corporation (12 U.S.C. §620). The Voluntary Guide to Conduct for Senior Officials of the Federal Reserve System extends this prohibition to any affiliate of a bank and to spouses and dependent children of Board members.

Mr. LaWare has advised me that, before he takes the oath of office, he and his wife will divest all shares of stock they own in any such institutions, including SNC, Chittenden Corporation, Burlington, Vermont, and Chemical, each of which is a bank holding company.

Mr. and Mrs. LaWare will divest these bank holding company shares by sale, gift to charity and to their adult children, or by both sale and gift. If Mr. and Mrs. LaWare elect to divest these shares by gift, they may decide to do so

by transfer to an irrevocable trust that will be administered by an independent trustee, probably a financial institution. Whether divestiture of these shares is by sale or gift or by both sale and gift, it will be an irrevocable and complete transfer of Mr. and Mrs. LaWare's interest in these shares. In the case of disposition by irrevocable trust, the trust instrument will grant authority to the trustee to administer the trust in the trustee's absolute discretion.

If Mr. and Mrs. LaWare elect to establish an irrevocable trust as described above, I will review the proposed trust instrument prior to its execution and before Mr. LaWare takes the oath of office as a Board member for compliance with the above requirements. I will also submit the trust instrument to your Office for review.

Neither Mr. nor Mrs. LaWare has any equity interest in an Edge Act corporation.

2. Marketable United States Government Securities

The Voluntary Guide to Conduct prohibits Board members from owning any marketable United States government securities. Mr. LaWare does not own any Treasury bills, notes or bonds. He does own less than $5,000 in U.S. Savings Bonds, which mature in September, 1988. Mr. LaWare plans to hold these savings bonds until maturity. I do not view this holding as inconsistent with the Voluntary Guide.

3. Stock in U.S. Government Securities Dealers

The Voluntary Guide to Conduct also prohibits Board members from owning stock in any U.S. government securities dealers. As shown by his SF 278 financial disclosure report, Mr. LaWare does not own any such stock.

4. Directorships

The Federal Reserve Act prohibits Board members from serving as a officer or director of a bank, banking institution, trust company, Federal Reserve bank (12 U.S.C. §244) or an Edge Act corporation (12 U.S.C. §620). The Federal Reserve Act also requires Board members to "devote their entire time to the business of the Board" (12 U.S.C. § 241).

Mr. LaWare is presently serving as a director of the Federal Reserve Bank of Boston and of SNC and several companies affiliated with SNC, including an Edge Act corporation. He has informed me that before he takes the oath of office as a Board

member, he will resign his position as a member of the boards of directors of these companies. Following these resignations, Mr. LaWare will no longer serve as an officer or director of a bank, banking institution, trust company, Federal Reserve bank, or Edge corporation, or a holding company for any such institution.

Mr. LaWare is presently serving as a member of the boards of directors of a number of other organizations, as detailed in his SF 278 report. He has advised me that, prior to taking the oath of office, he will resign from all positions with these institutions, except as discussed below.

5. Continuation as Trustee and Prospective Chairman of Boston Children's Hospital

Mr. LaWare has decided to retain, in his private capacity, his trusteeship of the Boston Children's Hospital, Boston, Massachusetts, and its affiliate, The Children's Medical Center Corporation, and to assume the Office of Chairman of the board of trustees this fall. He would receive no compensation for these services. I have advised Mr. LaWare that he may retain and assume these duties in his private capacity without use of his official title or any official working time or Board resources. Mr. LaWare understands and agrees to these restrictions.

The board of trustees of Boston Children's Hospital, a nonprofit organization, meets once a month to consult with the president of the hospital who is responsible for its management and operations. The Chairman sets the agenda for these meetings and serves as the presiding officer. When a vacancy occurs in the office of president of the hospital, the board also selects a new president. The responsibility of the Chairman, and of the board as a whole, is policy making and consultative in nature, with occasional responsibility for selecting the president of the hospital.

Mr. LaWare has advised this Office that he would not permit his service on the hospital's board of trustees to interfere in any manner with the discharge of his responsibilities as a member of the Board of Governors. He expects that his service to the hospital will require only a limited amount of time, typically no more than one meeting of the board of trustees per month, during which time Mr. LaWare would be accessible by telephone. Based upon these assurances, I do not believe Mr. LaWare's service on the board of trustees of the hospital would be inconsistent with the requirement of the Federal Reserve Act that Board members "devote their entire time to the business of the Board..." (12 U.S.C. §241).

In addition to its buildings, furnishings, and equipment, the hospital's assets consist of various parcels of real estate and securities. The securities portfolio is managed, including all buy-sell decisions, by an outside investment adviser. This outside company reports both to the Investments Committee, a subcommittee of the hospital's Finance Committee, and also directly to the Finance Committee.

The board of trustees of the hospital does not approve hospital investments and is not involved with fund-raising. The outside investment adviser has full management of the hospital's securities, subject only to the guidance of the Finance Committee and the hospital's chief financial officer.

The Finance Committee consists of hospital officials, three or four hospital "overseers," persons chosen for their financial expertise, and some of the trustees of the hospital. The chief function of the Committee is to review the performance of the investment adviser. The chief financial officer of the hospital reports on budgets and investments to both the Finance Committee and the board of trustees.

Mr. LaWare has stated that, during his tenure as a member of the Board of Governors, he will not serve on the finance committee of the hospital or its affiliate. In order to avoid having any connection with hospital investments, Mr. LaWare has agreed not to offer any investment advice to the hospital president, not to participate in discussions or votes about investment policy or fund raising, and not to review, or receive any information about, hospital investments, including the monthly report of the chief financial officer to the board of trustees.

Under the facts and circumstances presented here and subject to Mr. LaWare's commitment to isolate himself from knowledge, of or participation in, the management of the hospital's investments, I do not believe that Mr. LaWare's uncompensated services as a trustee of the hospital and his prospective service as Chairman of the board of trustees would present a disqualifying financial interest under 18 U.S.C. §208(a).

Based upon the foregoing, and after Mr. LaWare completes the divestitures of bank stock and resignations described above, it is my opinion that Mr. LaWare will have complied with the requirements of the Federal Reserve Act, 12

U.S.C. §§ 241, 244 and 620; the Voluntary Guide to Conduct for Senior Officials of the Federal Reserve System; and 18 U.S.C. § 208(a).

6. Salary, Retirement, Pension, and Other Interests

As noted in Mr. LaWare's SF 278 report, Mr. LaWare currently has certain rights under an employment agreement with SNC and under various retirement and other benefit plans from SNC, Shawmut, and Chemical. Counsel for Mr. LaWare has submitted a memorandum to this Office describing these various benefit plans and the actions that Mr. LaWare proposes before taking the oath of office as a Board member to terminate his employment agreement with SNC and his interest in these plans. Mr. LaWare's interests under the agreement and benefit plans and the actions he proposes to take to terminate these interests are discussed below.

A. Lump-Sum Payment of Salary Under 5-Year Employment Agreement

On February 23, 1988, SNC entered into an employment agreement with Mr. LaWare as Chairman of the institution. The agreement is for a term of five years and provides that upon Mr. LaWare's termination from SNC's employment, he would be entitled to the continuation of his salary for the remainder of the term of the five-year agreement, including annual increases of not less than the percentage increase approved for SNC's salary structure for that year.

Counsel for Mr. LaWare has advised that Mr. LaWare will relinquish his rights under the employment agreement and other SNC and Shawmut benefit plans and arrangements in exchange for lump sum payments representing the balance due him for salary and for pension rights and other benefits under the SNC employment agreement and benefit plans. In making the calculations regarding the lump-sum payments for salary and supplemental retirement benefits, SNC has assumed annual increases in salary over the remaining term of the agreement equivalent to the average of salary increases for Shawmut and Hartford over the past five years. These payments will be made to Mr. LaWare upon his termination from SNC's employment. The General Counsel of SNC has advised this Office by letter that the manner of resolving specific benefits due to Mr. LaWare from SNC is the same as or comparable to the manner in which SNC, Shawmut Corporation, Hartford National Corporation, or their affiliates have resolved benefits due to other officers upon their voluntary terminations.

Mr. LaWare's employment agreement with SNC was negotiated in connection with the February 29, 1988, consolidation of Shawmut Corporation and Hartford National Corporation to form SNC, the 22nd largest bank holding company in the United States with assets of approximately $26 billion. In connection with that merger, Mr. LaWare, then the Chairman and Chief Executive Officer of Shawmut, and Mr. Alvord, then the President and Chief Executive Officer of Hartford, and the two next most senior officers of Shawmut and Hartford (Mr. Hamill of Shawmut and Mr. Overstrom of Hartford) agreed to waive certain rights and employment arrangements they had with Shawmut and Hartford. The Proxy Statement for the merger, published in October 1987, states that it was anticipated SNC would enter into new employment agreements with these four individuals.

At their February 23, 1988 meetings, the Human Resources Committee of the SNC board of directors and the SNC board of directors considered and approved the employment agreement for Mr. LaWare as Chairman of SNC, which he executed on the same day. Counsel for Mr. LaWare states that the employment agreement for Mr. LaWare is, in general, identical to those of Mr. Alvord, President and Chief Executive Officer of SNC, and Messrs. Hamill and Overstrom, each a Vice-Chairman of SNC. The agreements with these individuals were also approved by the SNC Human Resources Committee and board of directors on February 23, 1988, and executed on that day. Counsel states that the termination provisions of Mr. LaWare's agreement differ from the comparable provisions of the other three senior SNC officers in recognition of the fact that Mr. LaWare would not be serving as chief executive officer of SNC and his age.

The General Counsel and Secretary of SNC has advised this Office by letter that he has reviewed the agreements of the four senior SNC officers and that they are substantially identical, except in the following four areas. Under the agreement, Mr. LaWare is entitled to salary continuation upon his voluntary termination from SNC for any reason. The other three senior SNC officers are entitled to salary continuation only if their employment termination is for cause, for example, where the individual is not reelected to the board or his duties are materially diminished. In addition, the employment agreements for these individuals provide that the salary payments they receive from SNC subsequent to their employment termination will be reduced by any salary received upon reemployment. Mr. LaWare's agreement provides that his salary from SNC will be not be reduced unless he is reemployed at a higher base salary. Mr. LaWare's employment agreement also

provides that SNC will pay to Mr. LaWare the amount of any excise tax he would be required to pay if payments due him under the agreement are determined to be subject to federal excise tax under section 280G of the Internal Revenue Code (generally related to so-called "excess parachute" payments).

Finally, SNC's General Counsel has advised that there were differences in the augmented retirement benefits awarded Mr. LaWare and the other three individuals under their employment agreements. Mr. LaWare's increased benefits were determined by a formula tied to his current salary as increased from time to time as described above, whereas the other three individuals were credited with additional years of service. The General Counsel advises that this was done because of Mr. LaWare's seniority and closeness to retirement relative to the other three individuals. He states that the different treatment was accorded in order to achieve approximate equity among the four given the difference in age between Mr. LaWare and the other three individuals at the time the agreement was entered into.

The SNC General Counsel has advised that the above differences in the employment termination provisions of Mr. LaWare's agreement and that of the other three senior SNC officers were in recognition of Mr. LaWare's age (60) relative to the others and the fact that he would not be chief executive officer of the combined organization. The absence of a salary mitigation provision was to negate any implication that Mr. LaWare would, in the event of his employment termination, have an obligation to seek re-employment.

Counsel for Mr. LaWare and the SNC General Counsel have further advised this Office that the terms of these four employment agreements were developed in the last quarter of 1987 and in early 1988 in consultation with outside counsel for SNC and a compensation and benefits consulting firm (Towers, Perrin, Forster and Crosby), which Hartford had used for ten years prior to the merger to make recommendations regarding executive compensation based on an analysis of peer group compensation arrangements and other factors. We are advised that SNC followed this same general approach with respect to the compensation of the four SNC senior officers, including Mr. LaWare, utilizing largely Hartford personnel. The General Counsel of SNC states that outside counsel advised SNC that the four employment agreements, including that of Mr. LaWare, were within the norms of corporate practice with respect to such agreements and that Towers, Perrin advised SNC that the package of compensation and benefits available to these

individuals and the levels of compensation and benefits were within the range of compensation and benefits provided by SNC's peers within the banking industry.

The SNC General Counsel has also advised that the basic reason for the employment agreements was the consolidation of Hartford and Shawmut and that the agreements were authorized by the SNC board of directors and intended to allow the four senior SNC officers to devote their full attention to the operations of the newly consolidated organization without any concern as to how they could be affected personally by the merger.

The precise level of salary to be paid these individuals under their employment agreements approved and executed on February 23, 1988, was not fixed in the agreements, but was established at the March 22, 1988 meetings of SNC's Human Resources Committee and board of directors. In addition, at those meetings the Committee and board of directors approved compensation packages, including stock options and restricted stock awards, for these four individuals. Counsel has advised that at that meeting Mr. LaWare and Mr. Alvord were recommended for identical levels of compensation and that these compensation recommendations were essentially the same as those considered by the Human Resources Committee at the February 23, 1988 meeting. The minutes of the March 22 Committee and board of directors meetings indicate that Mr. LaWare and Mr. Alvord received identical salaries, grants of stock options and restricted stock awards. Those minutes further show that Mr. LaWare's salary and that of the other three senior officials was raised by varying amounts with Mr. LaWare's representing the smallest increase in absolute dollar terms over 1987.

Materials submitted by counsel for Mr. LaWare to this Office also indicate that Mr. LaWare's employment agreement was negotiated before Mr. LaWare was contacted by the White House Personnel Office regarding his consideration for service as a member of the Board of Governors. Counsel for Mr. LaWare has indicated that Mr. LaWare was first contacted by the White House Personnel Office regarding the possibility of his appointment to the Board of Governors by telephone on April 1, 1988; that he received a written request for information subsequently, dated April 2, 1988; and that he met with various officials in Washington, D.C. on April 19 and 27, 1988, regarding the appointment.

Counsel for Mr. LaWare has also advised that it was not until mid-March 1988 that Mr. LaWare became aware that there was not an active candidate under consideration for the

existing vacancy on the Board of Governors. At that time, counsel states that Mr. LaWare informally considered various issues that might be involved in connection with an appointment to the Board of Governors, including the possible financial impact. Counsel has advised that while Mr. LaWare discussed the matter with various individuals at SNC, no outside director and no member of the Human Resources Committee of SNC was informed of the possibility that Mr. LaWare might be considered for appointment to the Board or that he might have an interest in such an appointment, prior to the publication of an article to that effect in the Wall Street Journal on April 22, 1988.

Mr. LaWare has confirmed these statements and has advised this Office that he was first contacted by a member of the federal government regarding the possibility of the appointment to the Board on April 1, 1988. He has further advised that the benefits he is due under his employment agreement with SNC and SNC's retirement and other benefit plans were negotiated before he was contacted by the White House regarding appointment to the Board or considered such an appointment, and that they are not intended to supplement his salary as a federal official.

The SNC General Counsel has advised that he was directly involved on a day-to-day basis in the negotiation, drafting and execution of Mr. LaWare's employment agreement and those of the other three senior SNC officers, and that he attended all meetings of SNC's Human Resources Committee and board of directors at which the agreements were acted upon. He states that he was unaware Mr. LaWare was under consideration for appointment to the Board until the middle of April 1988 or of any indication on the part of members of the Human Resources Committee that they were aware of such a possibility prior to April 1, 1988.

B. Lump Sum Payment of Retirement Benefits

Counsel for Mr. LaWare has also advised that Mr. LaWare will receive, prior to taking the oath of office, lump-sum payments representing an amount calculated to produce the discounted equivalent after-tax economic benefit he or his survivor would be due under Shawmut's Supplementary Executive Retirement Plan, dated January 1, 1985, as modified by Mr. LaWare's February 23, 1988 employment agreement with SNC, from the date of his employment termination until age 65 in the case of the early retirement benefit under the plan; and continuing thereafter for an assumed life of 20.3 years (based upon 1983 Group Annuity Mortality Table, single life) in the case of the supplemental normal retirement benefit under the

plan; and for an assumed 8.7 additional years (based upon 1983 Group Annuity Mortality Table, joint and survivor) in the case of the supplementary survivor benefit under the plan.

C. Prorated Bonus

Pursuant to SNC's Annual Incentive Plan, members of SNC senior management are awarded annual cash bonuses. An annual bonus for Mr. LaWare is set by SNC's Human Resources Committee on the basis of his performance during the preceding year. Mr. LaWare will forfeit any entitlement for 1988 under this Plan.

D. Lump Sum Payments For SNC Stock Option and Restricted Stock Award Plan

SNC's Stock Option and Restricted Stock Award Plan, the successor to the Shawmut Performance Share Plan, was approved by the Shawmut and Hartford shareholders in connection with the merger of Shawmut and Hartford into SNC. The Plan is available to senior SNC executive officers. On March 22, 1988, Mr. LaWare was granted 30,000 options with stock appreciation rights under the Stock Option Plan. The exercise price of each option is $23.875. The closing price for SNC on July 1, 1988, was $25.875. Because of the one-year minimum waiting period prior to exercise of the options, it is doubtful whether Mr. LaWare will exercise these options upon termination of his employment with SNC. If he does not exercise the options before terminating his employment with SNC, he will surrender them to SNC at that time.

Pursuant to this Plan and subsequent action taken by SNC's board of directors on March 22, 1988, Mr. LaWare also received an award of 27,000 shares of restricted SNC stock. Under the Employment Agreement, SNC's Human Resources Committee is required to take all actions necessary to provide for the full vesting of the restricted stock awards upon Mr. LaWare's termination of employment with SNC. The SNC General Counsel has advised that in recognition of this contractual provision, the distribution of 27,000 shares of SNC will be made to Mr. LaWare upon his termination from SNC's employ. Mr. LaWare has stated that, immediately after receiving this stock and before he takes the oath of office as a Board member, he will divest these shares by sale, or by gift to charity or to his adult children.

E. Lump Sum Payments For Insurance

(i) Split dollar life insurance. Under Mr. LaWare's employment agreement with SNC, and pursuant to a plan available to the senior officers of SNC and its subsidiaries, SNC is required to maintain split-dollar life insurance coverage for Mr. LaWare through February 22, 1993. The policy provides for life insurance for Mr. LaWare until he reaches the age of 65 in the amount of at least four times Mr. LaWare's annual compensation. After age 65, Mr. LaWare has a choice of either (I) receiving retirement payments from SNC under the policy, or (II) continuing insurance coverage. SNC owns the cash value of the policy and is a beneficiary under the policy to the extent of premium amounts paid by SNC.

At the time that Mr. LaWare resigns from the company, SNC will make a lump sum payment to the insurance carrier of its portion of the premium on the split-dollar life insurance for coverage through February 22, 1993. At the same time, Mr. LaWare will pay the carrier his share of the premium for insurance coverage until age 65. Mr. LaWare will also waive his right to elect continued insurance coverage beyond age 65.

In addition, SNC will make a lump sum payment to Mr. LaWare in an amount that represents the discounted present value of the retirement payments SNC would have made to Mr. LaWare, upon his election of retirement benefits under the insurance policy beginning at age 65.

Upon Mr. LaWare's death, SNC is entitled to receive from the death benefit proceeds of the policy the lump sum payments paid to the insurance carrier and to Mr. LaWare at the time of Mr. LaWare's resignation from the company.

I believe that the above arrangement satisfies the requirement of 18 U.S.C. § 209(b) in that it appears to be a bona fide benefit plan from a former employer. The plan is available to senior SNC executive officers, one of whom is Mr. LaWare. Mr. LaWare is entitled to receive the life insurance pursuant to his employment agreement, whether he remains in the employ of SNC or resigns, and the continuing insurance is not linked to his prospective federal appointment. Because SNC will provide the insurance carrier with a lump sum payment in full for its obligations through February 22, 1993, thereby severing its relationship with Mr. LaWare, the insurance will not be a "financial interest" in SNC for Mr. LaWare that would bar his official participation in SNC matters under 18 U.S.C. § 208(a).

(ii) Medical. Health Insurance. Pursuant to the SNC employment agreement, Mr. La Ware is entitled to various medical and health insurance benefits, which, upon his resignation from the company, he will waive to the extent that similar coverage is provided by the Board of Governors.

To compensate for medical and health benefits Mr. LaWare presently has from SNC that would not be available from the Board of Governors, if any, SNC will either give Mr. LaWare an equivalent lump sum cash payment for these benefits, or make an alternative arrangement for benefits acceptable to Mr. LaWare and the Board of Governors. We would apprise your Office of any such arrangements.

F. Payment of Excise Tax Under § 280G of the Internal Revenue Code

Mr. LaWare's employment agreement with SNC provides that, in the event that payments and benefits provided to Mr. LaWare under the agreement are deemed to be covered by the so-called "excess parachute payments" in section 280G of the Internal Revenue Code so that an excise tax must be paid, SNC is obligated to reimburse Mr. LaWare for the amount of any excise tax incurred. SNC and Mr. LaWare have consulted an independent public accounting firm to determine the amount, if any, that may be payable as excise tax pursuant to section 280G of the Internal Revenue Code. Before Mr. LaWare takes the oath of office, SNC will pay him a lump sum for the amount of excise tax so determined, if any, or will place such amount in an escrow account with any overpayment to be remitted to SNC.

7. Benefits Deriving From Employment by Shawmut Corporation.

A. Lump Sum Payment for Benefits Under Shawmut Corporation Employees' Retirement Plan. The Shawmut Employees' Retirement Plan is a qualified pension plan that covers all Shawmut employees who have at least one year of service and who meet other plan requirements. Benefits are subject to forfeiture upon termination of employment before age 65 with less than 10 credited years of service. It is not likely that Mr. LaWare will satisfy the 10-year service credit requirement (employment until October 31, 1988, would be required) to qualify for regular retirement benefits under this plan. Instead, these payments will be covered by the Shawmut Supplementary Executive Retirement Plan ("SSERP"), as amended by Mr. LaWare's employment agreement with SNC, as described above. If, however, service credit requirements should be met, the amount due under the Shawmut retirement plan amount will be

paid out in a lump sum in a manner consistent with the Plan, and payments under SSERP and the employment agreement will be reduced accordingly.

B. Shawmut Performance Share Plan. About 50 Shawmut employees participate in this plan. Pursuant to the terms of the plan, dated January 1, 1986, and its predecessor plan, Mr. LaWare will receive an award of shares and cash (half and half) based upon Shawmut's performance for the period prior to 1988, and SNC's performance for the part-year 1988 to his date of resignation. Actual performance is measured against ROA and ROE goals established in the plan, except that on February 18, 1988, the Shawmut Compensation Committee decided to adjust the goals for calendar year 1987 to exclude three extraordinary items: LDC provisions, merger expenses and Shawmut's pension gains. For part-year 1988, ROA and ROE goals will be based on SNC's current performance forecast.

Mr. LaWare will receive the cash portion of the award outright, and will divest the stock portion of the award, approximately 7,400 shares of stock, before taking his oath of office.

C. Shawmut Thrift Plan. The Shawmut Thrift Plan is a qualified plan, available to all employees with one year's service, that permits deferral of certain compensation for tax purposes, with a matching contribution equal to one-half of the first six percent of deferred compensation. Under the Shawmut Thrift Plan, employees may elect to leave funds invested in SNC stock or one of two stock funds or to receive a lump sum distribution of vested benefits. Mr. LaWare will receive a lump-sum distribution of vested benefits, which will be placed in an IRA rollover or comparable account.

D. Shawmut Employee Stock Option Plan ("ESOP"). The Shawmut ESOP is being terminated for all employees effective July 1, 1988. Distributions of vested benefits are being made as of that date. Mr. LaWare's lump sum distribution of vested benefits will be placed in an IRA rollover or comparable account.

E. Other Benefits. Pursuant to Mr. LaWare's employment agreement, he is also entitled to seven or eight other benefits, which he will either waive or forfeit before taking his oath of office as a Board member.

8. Lump Sum Payments for Benefits from Chemical Banking Corporation Retirement Plan

A. Pension. Mr. LaWare's vested pension rights in Chemical's retirement plan are for past services rendered to Chemical, which services ended more than 10 years ago, and are also in no way connected to his appointment to the Board of Governors. Before taking his oath of office, Mr. LaWare will receive a lump sum distribution of vested pension benefits, which will be placed in an IRA rollover or comparable account.

B. Supplementary Health Benefits. Participation in Chemical's health insurance plan is available to all Chemical retirees whose positions were similar to the one held by Mr. LaWare during his tenure at Chemical. Mr. LaWare will receive a lump sum cash payment in lieu of his right to supplementary medical benefits under the Chemical Bank Retirement Plan; or, if the lump sum payment is not feasible, then Mr. LaWare will waive these benefits, if any.

CONCLUSIONS

Mr. LaWare's acceptance of the above-described lump sum payments will sever his relationships with SNC and Chemical, and he will have no other continuing arrangements with these banking organizations, or with any other former employer. For a brief period of time, Mr. LaWare will continue to participate in SNC and Chemical medical and health insurance plans in order to continue this protection for himself and his wife.

Based upon the above submissions by counsel for Mr. LaWare regarding the background and circumstances of Mr. LaWare's employment agreement, the statement by the General Counsel of SNC regarding that agreement with SNC, the relevant minutes of SNC's board of directors and Human Resources Committee, and Mr. LaWare's statement, it is my opinion that Mr. LaWare's receipt of the above-described payments due under the SNC employment agreement, related pension and other plans of SNC and Shawmut, and his benefits under Chemical's Retirement Plan were not intended as a supplement to his salary as compensation for his service as a federal official and would not, therefore, present a question under 18 U.S.C. §209(a).

It is also my opinion that Mr. LaWare's receipt of these payments will remove any "financial interest" Mr LaWare may have in SNC or Chemical that could bar his prospective official participation as a Board member in matters involving these financial institutions under 18 U.S.C. § 208(a).

In order to avoid any appearance of a conflict of interest that may arise from any of Mr. LaWare's benefits from a former employer or his present business or other affiliations, however, Mr. LaWare will not, for a period of one year following his appointment to the Board, vote on, or participate in any discussions with other Board members or staff related to, any particular matter that comes before the Board for decision that involves SNC or Chemical or that directly affects or involves any company or organization (other than the Reserve Bank) that he has served as an officer, director or trustee during the last 12 months, including particularly SNC and its affiliated companies. In addition, Mr. LaWare has advised that if he decides to give his shares of SNC to his adult children either directly or by establishing an irrevocable trust for their benefit, in order to avoid the appearance of such a conflict of interest, he will not vote on, or participate in discussions with other Board members or staff regarding, any application or other particular matter that directly involves SNC so long as the children or the trust held this SNC stock.

Accordingly, and based upon the actions that Mr. LaWare has already taken with regard to his investments and outside activities, and commitments he has made in his SF 278 report and in the written statement concerning divestitures, resignations and recusals, it is my opinion that Mr. LaWare will have satisfied, or will satisfy prior to taking the oath of office as a member of the Board of Governors, all requirements for eligibility to take this oath, other than certain administrative filing requirements.

Sincerely,

Michael Bradfield

Enclosures

Questions Submitted by Senator D'Amato to Mr. LaWare
Nomination Hearing--July 7, 1988

Question 1: At the time of the Shawmut disclosure of its failure to report cash transactions, what was your position at Shawmut?

Answer: I was Chairman of the Board and Chief Executive Officer at Shawmut Corporation and Chairman of the Board and Chief Executive Officer of Shawmut Bank of Boston, N.A.

Question 2: When did you become aware of the failure to disclose?

Answer: Neither past audits by Shawmut's internal or external auditors, nor in examinations by the Office of the Comptroller of the Currency, revealed currency transaction reporting errors. After the public disclosure in early February 1985 that Bank of Boston had paid a fine for violation of the Bank Secrecy Act, I directed senior management to conduct an intensive review of Shawmut's own procedures for complying with the Bank Secrecy Act. Through that review, which was begun immediately, we discovered errors in Shawmut's procedures for complying with that Act.

Question 3: Did you participate in the decision to make voluntary disclosure?

Answer: When we discovered that there had been reporting errors, I directed the President of Shawmut to make a voluntary disclosure of the results of the review to the Comptroller of the Currency and the Department of the Treasury. This disclosure was made on February 19, 1985.

Question 4: Are you aware of the conclusions of the U.S. Attorney's investigation?

Answer: The staff attorney at the Department of the Treasury who was reviewing Shawmut's voluntary disclosure case informed Shawmut in late 1986 that the investigation by the Office of the U.S. Attorney for the District of Massachusetts had been concluded without an adverse finding with regard to Shawmut Bank.

Question 5: The Federal Reserve Board currently finds itself in the center of a wide-ranging controversy about monetary policy. Many industries are operating near capacity, and unemployment is relatively low in the country in general. These signals indicate a risk of inflation. Yet many believe that the Fed's tight money policy of last year prompted the October stock market crash. What is your personal belief about the economy's immediate future? How should the Fed respond?

Answer: In many respects, we can be pleased with the current economic situation. The expansion has passed the five and a half year mark and the prospects are highly favorable that it will continue. One reason that we can be optimistic is that we have not experienced the pickup in inflation that has accompanied other economic expansions. However, I don't think we can be complacent about wage and price trends, given that unemployment rates have declined this year to the lowest levels in some time and labor markets have become quite tight in many areas. Also, plant utilization rates have reached high levels in some major industries. And we cannot ignore the inflationary risks that are present today in the farm sector. It is important that monetary policy be perceived as a stabilizing influence.

I do not believe that the stock market experience of last fall should be a serious deterrent to monetary restraint, if that were to be necessary to check growing inflationary

pressures. Higher interest rates may have played some role in the decline of stock prices after last August. But it is important to recognize that share prices had climbed to unsustainable levels. Whatever may have triggered the October break--and the trade outlook or tax and budgetary concerns were certainly major factors along with interest rate worries--was largely incidental to an inevitable market correction.

Question 6: How would you assess the Fed's performance under Chairman Greenspan as compared to the Fed under his predecessor, Mr.Volcker?

Answer: The Fed's performance under Chairman Greenspan has been outstanding, just as it was under Mr. Volcker.

Question 7: Do you believe that the current regime of federal financial services regulation can be improved by centralization of regulation under a single organization?

Answer: The highly integrated nature of our financial system suggests the importance of coordination among the various regulatory agencies that oversee financial institutions and markets. The need for such coordination is underscored by the increasing evidence of overlap in functions between providers of securities and of banking services. Banks, for example, have made the natural extension into securitized products, while securities firms have contemporaneously undertaken many of the activities that have been traditionally thought of as unique to banking. In light of this situation, it may well be appropriate to consider ways that coordination and cooperation can be strengthened.

However, I see no need at the present time for a "super-regulator" or for the centralization of regulation for the entire financial services industry under a single organization.

Questions Submitted by Senator Karnes to Mr. LaWare
Nomination Hearing--July 7, 1988

Question 1: Over the last several years there has been considerable takeover activity in the corporate world, and some of it has been hostile in character. Banks have, for the most part, been spared of this.

In your view, are hostile takeovers beneficial in restructuring American industry and how does this relate to banks as takeover targets?

Answer: Hostile takeovers can be beneficial in restructuring industry. Such takeovers subject poorly or marginally performing management to market discipline by offering shareholders an opportunity to select new management. Since banking organizations are required to compete in financial markets with other corporations, it is reasonable that management of banking organizations should be subject to the same type of discipline. Prohibiting hostile takeovers of banking organizations could, in the long run, be detrimental to the banking system because of the greater likelihood of entrenching management of poorly performing organizations.

Contested banking acquisitions should not be considered to be fundamentally different from negotiated acquisitions. A contested takeover simply indicates the target company management's opposition to the offer. The uncertainty generated by management's opposition is just another factor to be considered in determining whether an acquisition proposal is in the public interest as required by the Bank Holding Company Act. The Board's application procedures enable it to evaluate each proposal on its own merits, and to impose additional conditions if necessary (e.g., higher capitalization) to ensure the safety and soundness of the acquired organization and the banking system as a whole.

Question 2: As an executive and a director of a bank holding company, you have seen functional regulation first-hand.

Do you believe that functional regulation works and do you have any fears of what a "super-regulator" would mean for the financial markets?

Answer: My experience suggests that functional regulation is indeed a workable and appropriate approach for ensuring that similar activities in different organizations are supervised evenly and equitably--regardless of the nature or charter of the institution that carries out the activity. Functional regulation can help to achieve uniformity in the official oversight of financial institutions and can eliminate unnecessary or unjustified competitive inequalities arising from the imposition of different supervisory or regulatory systems on the same activity conducted in separate firms.

While cooperation and coordination among regulatory authorities is highly desirable, under present circumstances and conditions I see no need for a super-regulator overseeing all aspects of our financial markets. Clearly coordination among regulatory agencies is essential, given that rigid lines no longer completely separate the activities and powers of banking organizations, securities firms and other providers of financial services. The financial institution regulatory agencies have developed a number of ad hoc and ongoing arrangements--both formal and informal--to coordinate the oversight of banking and financial services companies. As I assume my responsibilities

on the Board, I intend to take an active interest in what additional steps, if any, are necessary to improve or expand efforts to coordinate supervisory and regulatory activities with respect to our banking and financial markets.

Question 3: It has been said that the risks associated with margin in the securities markets and those of the futures markets are different.

Do you agree that there is a difference in the related risks and should those margin requirements be identical or should they be coordinated?

Answer: I find myself in agreement with the conclusion of the President's Working Group on Financial Markets on the issue of margin levels. The Working Group concludes that from the standpoint of protection of the market system from large price movements, the present higher margin levels on individual stocks are quite comparable to the lower margins on stock index futures. This is because fluctuations in the prices of individual stocks are larger than broad stock indexes and individual stocks typically have longer settlement periods. Thus, margin levels need not be identical across these markets.